EXPORT PROMOTION AND SMALL BUSINESS

HEARING

BEFORE THE

SUBCOMMITTEE ON EXPORT OPPORTUNITIES
AND SPECIAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

WASHINGTON, D.C., SEPTEMBER 21, 1982

Printed for the use of the Committee on Small Business

12-339 O

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1982

H721-7

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EXPORT PROMOTION AND SMALL BUSINESS

TUESDAY, SEPTEMBER 21, 1982

House of Representatives,
Subcommittee on Export Opportunities and
Special Small Business Problems,
Committee on Small Business,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 2359-A, Rayburn House Office Building, Hon. Andy Ireland (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN IRELAND

Mr. **Ireland**. Good morning. We are here today to listen to testimony on the subject of small business and its access to export markets around the world.

Ninety-two percent of all American firms sell only in the United States, while 93 percent of the world's population is outside the United States. Small firms are very often reluctant to explore the foreign markets as a source of additional sales. The reluctance stems from not knowing where to find out which companies want to buy the things that they produce. They fear the mechanics of selling, shipping, and particularly the mechanics of getting paid in foreign markets.

They do not know how to go about getting assistance or consolidating the vast amount of information that is available to them.

The subcommittee is looking for ways to help small business owners increase their export opportunities and improve their access to the world marketplace. Over the past few months the U.S. Chamber of Commerce has held a series of regional conferences to listen to small businessmen and women give their views to help us achieve our goal.

Today is a culmination of those conferences. Before we hear from our witnesses, I want to recognize a few people who were instrumental in setting up this program. Ivan Elmer, present and accounted for, is manager of the small business center at the U.S. Chamber of Commerce and Tim Wittig, who I do not see at the moment, the minority counsel of the full Small Business Committee, are to be commended for developing this idea.

The U.S. Chamber of Commerce should also be commended for what they have done. Without their members and resources, we wouldn't be able to have the hearing that we will have today, which I am sure will be fruitful.

Grant Rollin, the chairman of the Export Task Force for the Council of Small Business of the U.S. Chamber of Commerce, is our first witness, and, Grant, we are delighted to have you here this morning and you may fire when ready.

Mr. ROLLIN. All right.

TESTIMONY OF GRANT ROLLIN, CHAIRMAN, EXPORT TASK FORCE, AND MEMBER, COUNCIL OF SMALL BUSINESS, U.S. CHAMBER OF COMMERCE

Mr. ROLLIN. My name is Grant Rollin. I am a partner in the San Francisco office of the international certified public accounting firm of Deloitte Haskins and Sells. I am partner in charge of the department that serves small and growing businesses in northern California and, in that regard, I have about 160 clients, probably 40 of whom are involved in international trade.

That prompted me several years ago to become interested in the problems of exporting, and I wrote a booklet entitled "Exporting for Small and Growing Businesses." As a result of that, I was named firmwide coordinator of services to exporters and have expanded our marketing efforts in an attempt to assist potential exporters and companies which are on the fringe of exporting.

Additionally, I am editorial advisor to The American Export Marketer newsletter, and I am chairman of the U.S. Chamber's Export Expansion Task Force and a member of its Council of Small Business.

It is in that capacity that I am happy to be here today.

I would like to thank the subcommittee for providing this opportunity to discuss the export promotion for small business from the small business viewpoint. As you know, the vast majority of the 251,000 members of the U.S. Chamber of Commerce are small businesses.

The export expansion task force was established earlier this year with an attempt to focus on the importance of exports for that segment of the market. One of the first actions, as you mentioned, was to encourage local chambers to set up panels to discuss the impact of U.S. trade policies on small businesses in their geographical area. A summary of those findings is attached to my formal written statement and I will make reference to those as we go along.

Our basic proposition at the U.S. Chamber of Commerce is that a sound policy of U.S. trade will support both large and small businesses and in that regard I think what we need is a comprehensive trade policy. The U.S. Chamber of Commerce recognized that a year or so ago and issued a report entitled "A National Export Policy: Recommendations for Expanding U.S. Exports." The remainder of my comments will follow the point outline of that report.

The first point made in that report regarded the U.S. export imperative. In this respect I want to stress the impact of the high technology industry on U.S. business.

Nine of the ten fastest growing U.S. industries in the 1980's are expected to be in the high technology area. It has been well documented that a disproportionate contribution of research and development comes from small businesses. They have a high rate of productivity and growth, and a favorable balance of trade.

Probably, the major impact, though, is that they create a multiplier effect as other industries absorb their technology and create new jobs.

Some specifics might be interesting in terms of the importance of the high technology industry in the U.S. economy. Although they represent only 13 percent of export shipments and 5 percent of the U.S. work force, they spend 60 percent of the total private research and development costs in the United States and they employ 25 percent of the total scientific and technical manpower.

Their rate of growth has been twice that of the U.S. industrial real output over the last 10 years, but their inflation rate has only been one-third of the average U.S. inflation rate. Of most importance to us today, I think, is that in 1980 the high technology industries had a favorable trade balance of $31 billion, which was obviously offset by a $50 billion deficit for all other manufactured goods.

Clearly, this is the growth area in U.S. business and it is an area that we at the chamber are concerned about because the impact of foreign competition is resulting in our position slipping a bit. There are potentially many reasons for the slippage. They include the lack of the availability of technicians, the general economic policies of the respective countries, the relative encouragement provided by various countries for international trade and for high technology research and development expenditures, and the availability of export finance.

The second point in the chamber's booklet on export expansion is the private sector export initiatives. This is where we believe the U.S. businesses have to take a greater role in taking the lead in encouraging exports overseas. We find this a good way to use local chambers to act as catalysts for encouraging exports.

If the local chambers could steer potential exporters to the appropriate sources of expertise, we believe that a one-on-one businessman-to-businessman approach is preferable. I will expand upon this approach later.

Point three in the chamber's booklet describes the removal of U.S. Government disincentives. I think everyone agrees that an obvious goal should be to remove any disincentives or obstacles placed on potential exporters by the Government—and this has obviously received high attention recently—and there have been some modifications in the laws and regulations affecting potential exporters. Some of the areas that have received high attention include the Foreign Corrupt Practices Act and antiboycott legislation.

But some well-intentioned actions can go overboard. An example of that right now is Operation Exodus, which is intended to halt the illegal export of critical technology. But it is developing into a serious hindrance to legitimate export activity.

The problem is that small businesses are hit hardest by excessive Government regulation because they have neither the financial nor technical resources to respond.

The fourth point in the booklet is entitled "Removing Foreign Barriers," and, again, the small businesses are hit disproportionately when the cost of doing business overseas rises because they don't have the production runs, for instance, to cover the increased cost. One example of this is the high cost of foreign travel. I think this is a critical area in terms of reinforcing the importance of good technical assistance programs before someone becomes involved in exporting. A company should fully understand what they are doing before they make a financial commitment to exporting.

The fifth point in the booklet, "Government Programs to Encourage Exports," touches on specifically the questions that I was asked to respond to today. Many small companies are truly frustrated with the performance of specific governmental programs. This frustration includes criticism of the business experience of Government personnel. One complaint is that it is hard to find someone within the bureaucracy who can help in any specific industry.

In spite of these problems, though, there are a substantial range of services provided by the Government. I suggest that rather than concentrate on expanding export opportunities through new programs, an effort be made to identify the effectiveness of existing programs.

In this regard I suggest that your subcommittee could convene a conference of specialists from the Department of Commerce field offices and representatives from State trade offices and local chambers to review such programs and decide which ones are the most efficient from their standpoint.

There has been significant interest in privatizing the trade promotion activities. The Chamber of Commerce has issued a prefeasibility study on this and I think it is worthwhile pursuing. Again, the concept, in my experience in dealing with small businesses, is that the one-on-one advice, businessman-to-businessman, is much more effective than fighting the bureaucratic system trying to find someone who can help.

I have some specific comments that I would like to conclude with. I think that the concept of private enterprise becoming involved in trade promotion is an important one and I think consideration should be given to providing Federal grants, perhaps on a matching basis, to provide private organizations the vehicle to promote international trade activity. For example, a feasibility study of the export opportunity for a specific company might be funded in this manner.

I think very strongly that the DISC [Domestic International Sales Corporation] program should be preserved and made easier for most people to understand. Generally speaking, companies don't use the DISC as a true incentive for starting export activities; but once they are exporting, terrific tax advantages are available. I have installed DISC's in about 12 of my exporting clients.

Third, I think that export finance has to be looked at. It is critical in today's environment where high commercial bank loan rates make it very difficult for companies to use the normal channels of finance. The problem is enhanced because many foreign companies are able to obtain export finance assistance from their own governments and that compounds the problem we have in terms of export trade.

Finally, I think that the passage of the Export Trading Company Act is important for small businesses which are on the fringe of exporting. I think they need finance and the staff expertise that otherwise they wouldn't receive. I don't see this as a cure-all, but I think it is important and I think in the long run it is extremely important.

In conclusion, I mentioned high technology as a functional growth area in the 1980's. I strongly concur that exporting is the growth area in the United States in the 1980's. I think when you look at the world as one geographic market, it is important to understand that removing the disincentives and providing further incentives is extremely important to small businesses.

I would be glad to answer any questions.

[Mr. Rollin's prepared statement follows:]

PREPARED STATEMENT OF GRANT ROLLIN, CHAIRMAN, EXPORT TASK FORCE, AND MEMBER, COUNCIL OF SMALL BUSINESS, U.S. CHAMBER OF COMMERCE

I am Grant Rollin, a partner in the firm of Deloitte, Haskins and Sells, in San Francisco, and Chairman of the Export Task Force of the United States Chamber's Council on Small Business.

I wish to commend the Subcommittee for providing this opportunity to discuss export promotion from the viewpoint of small business. The Chamber's membership of more than 251,000 firms and individuals, 3,000 local and state chambers of commerce and trade associations, is composed predominantly of firms in the small business category.

The Chamber's Council on Small Business focuses on the special concerns of business in that segment of Chamber membership. The Council's Export Task Force was organized earlier this year to establish export promotion as a primary concern of the Council. Among the first actions of the Export Task Force was to urge selected local chambers of commerce to convene panels of small business exporters to review how they are affected by current U.S. international trade policies. I want to express the appreciation of the Task Force for the invaluable counseling and assistance given by the Export Subcommittee in organizing this effort. With your guidance, we asked local chambers to identify their problems and to submit their proposed solutions to the problems. About 25 chambers responded, and a summary of their recommendations is included as an appendix to this statement.

In today's hearings, witnesses are being invited to comment on questions proposed by the Subcommittee and to discuss in general with Subcommittee members their views on export promotion. I shall follow this format but my written statement on behalf of the Chamber will set out some general principles that we believe should be followed in a national export expansion policy of relevance to small business.

A basic proposition is that, in exports, sound policy must be supportive of increased activity by companies of all sizes. While concerned today with the considerations peculiar to smaller-scale business, we must not neglect the need to push for the adoption of aggressive and comprehensive export policies at the national level. In this respect, the U.S. Chamber has developed an action program in the form of the report, "A National Export Policy: Recommendations for Expanding U.S. Exports." The report serves as a blueprint for the Chamber's export promotion and development program on a broad front. The organization of the September, 1981, report follows a breakdown that coincides with principles relevant to small business.

1. U.S. EXPORT IMPERATIVE

The importance of an aggressive and vigorous U.S. export performance has been proclaimed and analyzed exhaustively. There is little if anything we can do to add to the subcommittee's understanding of the situation. One emerging perspective of U.S. export strategy, however, that does call for wider understanding and attention by policymakers, is the role of high technology industry in the U.S. economy.

Nine of the 10 fastest growing U.S. industries in the 1980's are in high technology. These are identified as: communication equipment, electronic components, aerospace, computers and office equipment, drugs and medicines, industrial chemicals, professional and scientific equipment, engines, turbines and parts, and plastic materials and synthetic resins.

Their importance to the economy is reflected in their disproportionate contribution to research and development, their high rate of productivity and growth, and their favorable balance of trade. These factors have a positive effect on the entire economy as other industries absorb the new technology and thereby create new jobs.

Because the high technology industries have a direct bearing on small business in general and small business exports in particular, some of the specifics of their benefits need to be amplified.

Although they represented only 13 percent of product shipments in 1980, and only 5 percent of total employment, their research spending accounted for more than 60 percent of total U.S. private industrial R&D. They also employed more than 25 percent of the total scientific and technical manpower in the country. In terms of real output, their rate of growth was more than double that of total U.S. industrial real output during the past ten years. During this period, 1970–1980, their average rate of price increase was only one third that of the U.S. average inflation rate. These facts lead up to the point of most relevance to today's hearings, namely that in 1980, high technology products had a favorable trade balance of $31 billion, compared to a $50 billion deficit on the part of all other manufactured goods. As a component of total U.S. exports of manufacturers, high technology shipments now stand at approximately 45 percent while imports of high technology items account for 25 percent of imports of manufacturers.

While high technology is clearly the growth area in the economy and in world trade, the U.S. share of world markets has been slipping, most notably as a consequence of Japanese competition.

Detailed causes for the slippage vary greatly. One significant factor is the effect of government policies on the willingness of firms to conduct research and to attempt to exploit new processes and products commercially. General economic policies, particularly as they affect inflation, are important, as is the availability of scientific and technical personnel. Other factors include the policies of competitor countries to encourage their own high technology sectors as well as the nature of technology transfer conducted by U.S. firms. The list is long and includes relative prices and productivity, exchange rates, labor costs, growth, relative quality of products and marketing efforts and the relative cost and availability of export finance.

This raises questions requiring very serious attention by the U.S. government and business. There are signs that the policy implications of the worldwide shift to higher levels of technological innovation and production are indeed being grasped by the government and that national policy proposals to encourage the higher rates of development will become a prominent feature of the political scene. My purpose here is to emphasize that efforts to establish effective export policies and programs depend on a clear understanding of where the growth is actually occurring in the international market place.

Small business is especially active in the high technology sector as direct producers and processors or in the provision of services, from research to export marketing.

2. EXPORT INITIATIVES FROM THE PRIVATE SECTOR

This section of the Chamber's report states that "U.S. business must take the lead in fostering an export consciousness in the United States and must increase the U.S. presence in foreign markets." Various proposals were set out for accomplishing this objective with emphasis on the role of local chambers of commerce. The essential principle is that local chambers be regarded and used as catalysts for the generation of export activity in the areas they serve. They have a basic responsibility to ensure that a firm looking for assistance in new or expanded export activity is steered to the appropriate sources. The latter could be a U.S. Department of Commerce field office or it could be an export managing company. This is an obvious and well established role, but needs reaffirming to offset the impression sometimes created by export expansion rhetoric, that would-be exporters can and should expect a range of services that practically lead up to winning an order.

For the most part, what business needs and should expect from business organizations are reliable directions when requested. The realities of exporting, involving considerations far removed from strictly domestic marketing, pose special problems for smaller firms without the staff and financial resources of large operations. While recommendations for some practical responses to business needs in this area will be presented during these hearings, we feel that much useful research would be justified into the feasibility and provision of "how to do it" export services organized on a practically commercial basis. I will enlarge upon this later.

3. REMOVING U.S. GOVERNMENT DISINCENTIVES OF EXPORTING

It is a well-established maxim of export expansion dialogue that very serious obstacles have been placed in the way of U.S. exporting by the government. Both Congress and the Executive branch have recognized the need to reduce the impact of regulations which have international effects on exports. Consequently, there is considerable activity underway to moderate the trade effects of a range of laws and regulations including the Foreign Corrupt Practices Act and anti-boycott regulations. The Chamber has articulated its position on all these disincentives and some of the views of local chambers of commerce are included in the appendix to this statement. The negative effects of the Export Administration Act are a constant source of frustration to exporters but a solution to the question of how to minimize its adverse and unintended effects is elusive.

Most companies are reluctant to question government actions premised on national security, so there is a tendency for the regulatory agencies involved to err on the side of excess. A current example is the implementation of Operation Exodus to halt illegal exports of critical technology to Soviet Bloc nations or other unfriendly countries. While the object is worthy, the execution, involving massive U.S. Customs inspections of export cargo, is developing into a serious hindrance to legitimate export activity. Small business exports are particularly hard hit by excessive government regulation. With smaller staff, they face a disproportionate burden in handling the paperwork and attending to the processes and procedures involved.

One recurrent restraint on small business success in exports is the lack of specialized trade personnel. Often, export duties are just added to the workload of individuals whose experience and training has been solely in domestic operations. In such cases, encounters with government export regulations are especially negative. The natural tendency is to lose interest in pursuing export opportunities that may require export control clearance.

4. REMOVING FOREIGN BARRIERS TO EXPORTS

The removal of foreign barriers to trade is essential to export expansion. Trade barriers have a disproportionate effect on small businesses which have limited financial resources or ability to spread costs over larger production runs. This handicap also works to their disadvantage in such things as the high cost of business travel in many foreign countries. Here, a smaller businessman is less able to travel abroad to investigate business opportunities at first hand. This factor reinforces the importance of timely and thorough technical assistance programs to small business.

5. GOVERNMENT PROGRAMS TO ENCOURAGE EXPORTS

The thrust of the specific questions presented by the Subcommittee for these hearings concerns export assistance programs provided by federal, state and local government agencies. Such programs are extensive, numerous and in constant flux. Frustration with the performance of specific programs, mainly at the federal level, has spawned new interest in "privatizing" some of these functions. Indeed, the Chamber's research affiliate, the National Chamber Foundation, has conducted a pre-feasibility study of the establishment of an Industrial Trade Promotion Corporation. Reactions to the preliminary findings are still under evaluation and may lead to the authorization of a more definitive study.

Much of the criticism leveled at federal export promotion activity has been triggered by a lack of consistency, not only in the quality of a particular program but in the year-to-year direction. This is allied to a frustration with the tendency of government agencies to replace or overshadow tried and tested programs with innovations, usually associated with the new broom syndrome of incoming administrations. Also criticized is the lack of business experience of Commerce Department and Foreign Commercial Service personnel. And, small businesses often find it difficult to locate the individual within the federal bureaucracy who is equipped to assist with a particular inquiry.

Closer and more responsive government consultation with business could bring some improvement to the problem areas listed. As it is, the record of the government's utilization of existing advisory mechanisms—the District Export Council being a case in point—has been spotty at best.

Nevertheless, notwithstanding its occasional lapses, the U.S. export development effort does provide very substantial help to firms attempting to increase their export business. When combined with the growing array of services provided at the state and local levels, there is a very impressive range of assistance available to exporters. The major problem is how these services are being directed and utilized.

A useful exercise for the Subcommittee on Export Opportunities would be to convene an off-the-record session with international specialists and directors of Commerce Department field offices. Between them, they represent a formidable body of experience and good judgement as to the type of services and program likely to be most effective and beneficial to exporters. To this group should be added representatives of state government trade offices and of local chambers of commerce with active export promotion programs.

Another note of caution in reviewing the adequacy of U.S. export promotion efforts concerns the danger of too much attention of foreign models of quasi-private trade promotion corporations. Japan's JETRO reflects drastically different attitudes toward business-government interactions (than prospects in the United States, or than we wish would prevail).

Yet another point of caution, despite the comments on high technology industry at the beginning of this statement, concerns the danger of focusing export promotion efforts too narrowly on limited groups of "key" industries. In practice, it is often firms in what may be only temporarily disadvantaged industries that would produce the greatest long term returns for a given unit of "export assistance." Here it is a case of not giving everything to the strong, who need little, but of building up the strength of those who are most in need.

One area that calls for more study, and which was raised in the Chamber's prefeasibility study, is the possibility of providing federal grants to private trade organizations for the conduct of certain trade promotion activities. On a matching fund basis, this could include the preparation of specific market studies and export strategies for client firms. This type of approach would leave the federal government with the bulk of its traditional and effective information gathering functions while stimulating the sort of company-specific business development program that is presently constrained by established limits on government activity.

Models in the United States and abroad (notably in West Germany) already exist for such programs.

Within the Commerce Department there is considerable experience in the operation of technical assistance grants to industry associations which could be adapted to export trade.

In addition to the reassessment of technical trade assistance programs, there are broad areas of government activity that have a very potent influence on the export activity of American firms.

Essentially, these are grouped around the tax treatment afforded export-related activity and the provision of export finance and credit.

Under the taxation heading, an issue of concern to small business, at this time is the preservation of the DISC program. This has proved its value to thousands of smaller firms and its elimination would gravely handicap their future export performance.

Export finance remains as possibly the single most important factor among government export programs, in the view of firms of all sizes. High interest rates and tighter commercial bank lending policies have enhanced the advantage of foreign competitors whose governments provide export finance support.

The Export-Import Bank program is undergoing extensive reevaluation in the Congress and in the Executive Branch. The fact remains that, at present, the Bank provides very limited funding for small and medium-size sales. Possible solutions to the relative lack of finance for sales in those categories would include:

1. Modifying the existing Discount Loan Program to ensure that its loans are not restricted to sales below the $2.5 million figure. "Small business" frequently is involved in opportunities involving higher levels.

2. Expand the Buyer Program to include transactions $500,000 or over. Availability of support would be more certain if all transactions $500,000 and over were financed from the direct lending and financial guarantee program budgets.

As it is, due to limitations in these programs, export opportunities in which small business participation could be extensive are lost. Some other consideration that should be reviewed in order to improve the export performance of small business include: the financing of product sales should be made equal in importance to the financing for projects; the certainty of funding support for U.S. exports should be reinforced in light of higher official interest rates recently agreed on by OECD countries; and, documentation for loans should be simplified.

A final recommendation for enhancing small business export performance concerns the Export Trading Company Act. The Chamber has been a strong supporter of this initiative. We do not see the act as a deus ex machina that will dramatically increase U.S. export volume. It would, however provide an attractive option for many firms presently on the fringe of export activity.

By participating in an export trading company, they would have access to staff expertise and financial and other resources. Lack of these constitute a serious obstacle to any sustained effort to break into foreign markets.

Congress has an opportunity to provide small business exporters with tangible and practical assistance by prompt enactment of the Export Trading Company Act.

CONCLUSION

Any initiatives to promote the expansion of small business export activity must be taken in the context of comprehensive and aggressive export expansion programs at the national level. The conditions that will best stimulate the export activity of large firms are the same conditions in which the international marketing exports of small firms will prosper.

The high technology segment of the U.S. economy is responsible for the greatest growth and also makes the most positive contributions to the U.S. trade balance. National policies should focus on the development of high technology industry, an area in which small business is especially well represented.

There are numerous export promotion programs available at national, state, and local levels. Before considering new program possibilities, it would be advisable to ensure that the available programs are properly directed and utilized. Otherwise, one of the most promising directions for new government export promotion programs concerns the provision of federal grants on a matching basis, to provide company-specific export development counseling.

POLICY AND PROGRAM RECOMMENDATIONS BY SELECTED LOCAL CHAMBERS OF COMMERCE FOR EXPANDING SMALL BUSINESS EXPORTS

ADD INCENTIVES, CORRECT DISINCENTIVES, FINANCING

Support legislation to amend the Foreign Corrupt Practices Act (S. 708 and H.R. 2530, the Business and Accounting Trade Simplification Act.)—Asia-Pacific Council of American Chambers of Commerce, Greater Charlotte Chamber of Commerce, Greater Providence Chamber of Commerce, and Atlanta Chamber of Commerce.

Support of the Senate Finance Committee's revisions to S. 2094, authorizing the President to enter into international negotiations targeted at the elimination of non-tariff barriers to trade in services and providing for the collection of data regarding non-tariff barriers to the services industry—Atlanta Chamber of Commerce.

Support of S. 2600, which would remove the Export-Import Bank from the Federal budget, so the bank will not be susceptible to future political controversies—Atlanta Chamber of Commerce.

Support of S. 734, the Export Trading Company Act of 1981. The Act will positively encourage and facilitate the formation and operation of export trading companies which can support the U.S. export effort. The beneficiaries would be small and medium size manufacturers—Asia-Pacific Council of American Chambers of Commerce.

Oppose the foreign requirement of H.R. 5519, a bill to give trade negotiation priority to service sector issues, as presently drafted. The requirement would increase the bureaucratic burdens on U.S. exporters wishing to do business in foreign government's jurisdictions—Atlanta Chamber of Commerce.

Note a problem in H.R. 1799, as it attempts to modify the Webb-Pomerene Act, it does not address the issue of substantive nor procedural guarantee of the anti-trust immunity accorded by the statute—Atlanta Chamber of Commerce.

Note the flaws in H.R. 5179, which allows a United States exporter to establish an international sales corporation in any country which has a corporate income tax. The proposal falls short of placing U.S. exporters on an equal tax basis with their competitors—Atlanta Chamber of Commerce and Manitowoc Two Rivers Chamber of Commerce.

Provide Eximbank with additional lending authority while ensuring that Eximbank's programs are competitive. This would help the U.S. create additional jobs plus retain existing jobs in our manufacturing industries against severe competition. It is suggested that Exim Bank lending authority to be increased to $8.7 billion—Asia-Pacific Council of American Chamber of Commerce, Atlanta Chamber of Commerce, and Metropolitan Milwaukee Association of Commerce.

DIRECT ASSISTANCE OR TRAINING (FEDERAL)

Provide International Trade experts to assist small business beginners—South Bend-Mishawaka Area Chamber of Commerce, Greater Providence Chamber of Commerce, Greater Minneapolis Chamber of Commerce, Norfolk Chamber of Commerce, and Manitowoc Two Rivers Chamber of Commerce.

Establish an American overseas agent to assist the small exporting entrepreneur for sales purposes in order to enhance his competitive position. (Use the help of U.S. Commercial Officers abroad.)—Rochester Area Chamber of Commerce.

Restrict federal export assistance programs to only "growth" businesses—South Bend-Mishawaka Area Chamber of Commerce.

Conduct seminar programs by local Chambers of Commerce in conjunction with appropriate Federal Officers such as the Small Business Administration—Greater Charlotte Chamber of Commerce.

Establish a Department of Commerce "Hotline" for vital trade information similar to the New York Port Authority hotline—Rochester Area Chamber of Commerce.

Establish an outreach program through the Department of Commerce—Greater Charlotte Chamber of Commerce.

SELF-HELP

Note that it is the responsibility of local organizations to pull up their own communities through their own export promotion efforts—Greater Cincinnati Chamber of Commerce.

Consider private sector input in the development of an export assistance program through the Department of Commerce—Buffalo Area Chamber of Commerce.

Establish trade centers to address the economic advantages of International Trade, to develop export markets as well as encourage overseas investment in the United States—Greater Charlotte Chamber of Commerce and Seattle Chamber of Commerce.

Develop an awareness of export assistance programs—Rochester Area Chamber of Commerce, Greater Providence Chamber of Commerce, and Seattle Chamber of Commerce.

The following examples illustrate local self-help programs sponsored by local chambers responding to the Export Expansion Task Force Survey:

GREATER WINSTON-SALEM CHAMBER OF COMMERCE

The Triad World Trade Club representing the Piedmont Region of North Carolina, attempts to promote world trade for the Piedmont area through the exchange of information on world matters, cooperate with local businesses, civic groups and academic institutions in developing programs as well as maintaining an affiliation with the North Carolina World Trade Association.

The International Trade Center of the University of North Carolina, established in 1978 to serve as a "source of analytical information and technical assistance" to aid in developing and implementing North Carolina's high priority programs in international trade and reinvestment. The Center seeks to develop markets for North Carolina products, encourage overseas investment in North Carolina and to encourage export services and opportunities.

PHOENIX METROPOLITAN CHAMBER OF COMMERCE

The Arizona World Trade Association established in 1965, promotes international trade by assisting potential and practicing foreign traders to advance their knowledge and skills. The Arizona Office of Economic Planning and Development publishes Arizona U.S.A. International Trade Directory.

GREATER DETROIT CHAMBER OF COMMERCE

The World Trade Club of Detroit, founded in 1926, promotes international trade to further local, national and world economy. Two years ago the World Trade Club became affiliated with the Greater Detroit Chamber of Commerce. Both groups are involved in the Export 80's Program designed to stimulate export activities in Southeast Michigan. The Port of Detroit Handbook provides an international trade and port directory.

METROPOLITAN EVANSVILLE CHAMBER OF COMMERCE

The newly-formed Tri-State World Council already has 30 members representing manufacturers and service organizations involved in some aspect of international trade. An affiliate of the Metropolitan Evansville Chamber of Commerce, the Council seeks to assist its members to start or improve performance in the field of international commerce.

JACKSONVILLE AREA CHAMBER OF COMMERCE

The Jacksonville International Trade Association is the Chamber vehicle for promoting international trade to local businesses, large and small. The Association publishes its annual Northeast Florida International Trade Directory through Jacksonville Magazine.

GREATER SAN DIEGO CHAMBER OF COMMERCE

The Export Expansion Program is sponsored by the Greater San Diego Chamber of Commerce, the World Trade Association, and the San Diego Office of the U.S. Department of Commerce (international Trade Administration). It provides export and trade seminars and publishes a World Trade directory annually which lists San Diego firms involved in international trade.

GREATER CHATTANOOGA AREA CHAMBER OF COMMERCE

The World Trade Council, an affiliate of the Chattanooga Area Chamber of Commerce, was formed in 1974 and is composed of over 200 members. The purpose of the Council is to provide a stimulus for trade interests in Chattanooga. The Council offers various seminars on exporting.

GREATER PROVIDENCE CHAMBER OF COMMERCE

The World Trade Club, established in 1942, has an active membership of about 300. Monthly meetings provide timely information on international trade topics. Frequent seminars are held. The World Trade Club successfully delayed the consolidation of the customs office of the Port of Providence.

MILWAUKEE ASSOCIATION OF COMMERCE

The Milwaukee World Trade Association has over 1200 members from 350 firms. Among the members are hundreds of small businesses engaged in international trade. The Association conducts monthly meetings and free seminars on various aspects of international trade.

Mr. IRELAND. Thank you, Mr. Rollin.

Would you expand a little bit on where you think the export/import bank program ought to be going?

Mr. ROLLIN. Yes, I will elaborate. One of the following witnesses is going to concentrate specifically on the export/import financing and I think he is probably more capable than I, but I think that two points that I made in the report are important. First, there should be a modification of the existing discount loan program to insure that loans are not restricted to sales below $2½ million.

Many small businesses are involved in opportunities that are at amounts greater than that.

Second, I think that the buyer program should be expanded to include transactions of one-half a million dollars or over. The availability of support would be more certain if all transactions of $500,000 and over were financed from the direct lending and financial guarantee program budgets.

I have four clients who are using the Eximbank financing and each has had a problem. Evan, who is going to follow me, has had personal experience with this and is probably in a much better position to expand upon that than I.

Mr. **Ireland**. You mentioned that one recurrent restraint on small business success in export is the lack of specialized trade personnel. You also mentioned that the one-on-one, businessman-to-businessman, seems to be far superior than talking to Government employees, be they in Commerce or State or whatever, who have had no business experience. I think the logic of that is overwhelming, but how can we solve that? I mean, what is it, a chicken and egg operation? Where are these specialized trade people going to come from and where do you see some relief along that line?

Mr. **Rollin**. I don't have any magical solutions. I think the problem is enhanced by the fact that many people that I have dealt with or my clients have dealt with in trying to obtain assistance are generally trade specialists who may or may not have expertise in the industry that my client is involved in. And they don't take a real aggressive stance with my clients.

They provide the basic information, but at times it is very frustrating to an individual who is looking specifically for encouragement and finds instead the negative aspects emphasized.

I think that what is going to have to happen in this area is that the privatization of this export assistance is going to have to be encouraged. My firm has made an attempt to meet people at the trade offices and within other governmental agencies who can provide assistance and try to identify people specifically that are knowledgeable in the various areas.

The problem is that if a small businessman off the street walks in, he is not sure who he is going to talk to. If he has a bad experience the first time, he won't come back. It is a real problem. So, there is no magical solution. I think that to the extent that private industry becomes more involved it can act as a conduit between the company and the Government and that will be a real advantage.

Mr. **Ireland**. Do you see the Export Trading Company Act as being a major or minor solution to some of the antitrust problems that affect small business? Or are they missing the boat?

Mr. **Rollin**. No. I think the Export Trading Company Act as proposed is fine. I do believe that there will not be a great rush for export trading companies to be established. On the other hand, I think over the long run, the expertise that a large company can provide not only in the financing, which is probably the most critical problem, but also in the management expertise, acting as liaison to solve the other problems that we talked about.

Small companies tend not to become involved in exporting because they are afraid of what is going to happen managerially. Most times my clients have become involved in exporting as a fluke. They have received an order from overseas and they have been thrust into the exporting and all of a sudden they have to worry about what they are going to do and whether they are going to expand that market, and as a result they learn through bad experiences. If it is profitable, they will continue to do it. That is a purely risk and return type of decision.

The problem is that they don't yet have managers who can come in and help them. There are export management companies that are sprouting up all over the place who are, in fact, able to walk in and act as the international arm of small companies and I think those are a help, but an export trading company has the additional incentive of also being an investor and I think that is an incentive that isn't now available in most cases.

Mr. **Ireland**. Grant, we thank you and, once again, I think the type of thing that you are doing in your private life as well as in the work with the U.S. Chamber is just outstanding. I think the small business community is rightly indebted to you for that effort and look forward to seeing more of that effort.

Mr. **Rollin**. Thank you.

Mr. **Ireland**. Thank you.

Next on the agenda is, from the Atlanta Chamber of Commerce, Carol Martel.

Ms. **Martel**. If it is all right, we would like to work in threes, if we may.

Mr. **Ireland**. You may, indeed. You have John Gornall and Ed Kilgore with you. Is that correct?

Ms. **Martel**. Yes.

Mr. **Ireland**. We would be delighted to have you all step forward and you can begin wherever you choose and welcome.

PANEL CONSISTING OF CAROL MARTEL; JOHN GORNALL; AND EDWARD KILGORE

Ms. **Martel**. Allow me to introduce these gentlemen and myself again. I am Carol Martel, Director of the International Department of the Atlanta Chamber of Commerce. John Gornall, to my left, is the chairman of the Subcommittee of the International Task Force, which has dealt with export policy on behalf of the chamber and the chamber membership and is also a partner with Powell, Goldstein, Frazer & Murphy, a law firm in Atlanta.

To my right is Ed Kilgore, who is responsible for export policy development for the Office of the Governor in the State of Georgia.

I would like to begin, if I may, by asking John Gornall to comment generally about some of the legislation that we have been tracking and some of the concerns that we have about issues regarding export trade development.

Mr. **Ireland**. Very fine. Thank you, Carol.

TESTIMONY OF JOHN GORNALL, CHAIRMAN, SUBCOMMITTEE OF THE INTERNATIONAL TASK FORCE, ATLANTA CHAMBER OF COMMERCE, ATLANTA, GA.

Mr. **Gornall**. I should add to Carol's statement that Powell, Goldstein, Frazer & Murphy does have a 20-man office in Washington, D.C., as well.

Mr. **Ireland**. That makes you a local boy.

Mr. **Gornall**. I am not a local boy, but Stuart Eisenstadt is trying to become a local boy.

Mr. **Ireland**. Very well, indeed.

Mr. **Gornall**. I am going to try to be responsive to the fifth question in your letter of September 13, where you ask, "The one thing you would like to see the Federal Government do now to increase small business exports," and I can't say there is just one thing, but there are a number of pieces of legislation which would be helpful and I am going to try to talk about them very briefly in order of importance.

I guess I am a believer in the carrot approach; that is, hang something out for someone as an incentive and let them go after it. I guess, the pull rather than the push and it seems to me that this legislation is one of those areas where as a country we have fooled around with this legislation for 11 years. The program has been modified and tinkered with so often that no one can keep up with it.

As I remember right, I looked last night in the Internal Revenue Code. There are almost 100 pages of regulations on the use of the DISC. Now, it seems to me and I am sure to this committee that to ask a small businessman to plow through 100 pages of Internal Revenue Code regulations is just asking a bit much. The whole concept of DISC was this was going to be a small "gimme," sort of an automatic. You send us a little notice and you can get a benefit for your export activities and to reduce the real tax rate on export activities.

Instead it has turned into the lawyers and accountants relief act. The Internal Revenue Service hates DISC with a passion. If you have a DISC when you get audited, they will take you up one wall and down the other trying to find something wrong with your DISC. So, this legislation has been by and large a flop.

Worse than that, it may be and it probably is, in my opinion, a violation of our obligations under the GATT. So, luckily, now that some attention is being shown on the problem, it seems that there are some proposals in Congress for a GATT acceptable revenue neutral alternative to the DISC and it basically revolves around forming a foreign corporation. You need a foreign corporation to comply with the GATT probably and to grant not a tax deferral, but a forgiveness of approximately 16 percent, which is about what a DISC is worth in present day life. So, you would reduce the tax rate about 16 percent for a company that exports on its export profits.

The Boren legislation appears to be pretty responsive to all the technical kinds of things that need to be done and would accomplish that reduction in a simplified way. The thing I would urge on this committee and Congress in general is that please, don't give us a bill that ends up with another 100 pages of Internal Revenue Code regulations because literally the small business folks just can't understand what is going on in those regulations and they can hire high power attorneys and accountants to help them, but that is all very expensive and may, in some instances, end up costing more than the taxes they saved that was supposed to cause them to go out and want to export.

If we can sort of make DISC what it was meant to be, that is, simple and very straightforward, and the Boren legislation appears to do that. Of all the proposals I have seen, it comes closest there. So, I think, as a chamber, we are saying we like that legislation. It seems to be responsive to what small business needs in the sense of an export incentive if that is Congress desire to try to provide a real dollars and cents incentive for those who export.

I wouldn't lie to you and say that I have many clients who got into exporting because the incentive was there, but I would say to you that once they are engaged in exporting, the fact that they can retain funds internally and not have to pay them out in taxes allows them to develop enough capital base to go on and increase capacity and increase their exports. In today's climate it is pretty difficult to generate internal capital and this is a way that you can allow companies to generate the internal capital on export activities without having to go to the bank and pay 2 over prime at today's prime and certainly not 2 over prime at 6 months ago's prime, which for a small business was almost prohibitive.

On the financing side, I think it would be fair for us to say that when you get right down to it, the Export-Import Bank in the United States really isn't in the business of financing small business. There is a great deal of trickle-down. That is, when Boeing gets a contract, it has a lot of suppliers, as Boeing points out to us, a lot of suppliers in Georgia, notwithstanding a large Lockheed plant there.

But the bottom line is if you are a small business and you want financing, we basically tell clients not to go to the Eximbank because that is not where they are going to get it. The Eximbank is not in the business of financing small business. I think that is a fair statement and I think a later speaker will give you some specifics on that.

We would, though, certainly support the Eximbank because we are not meeting foreign competition. Our firm represents a number of foreign companies who do business in the United States. In comparison, for example, instead of having a 16-percent reduction in taxes, they basically pay no taxes to their home country on their exports to the United States and I would be glad to draw you a diagram and show you how they do that, but they do that with impunity.

In other words they pay no fringe taxes on their exports to the United States on the income from exports to foreign countries. They just don't. In the financing area, they are killing us. Foreign governments are offering below rate financing and we have a number of clients, foreign companies, who have facilities in the United States and we are amazed at the financing they get for the exports of their goods into the United States.

They are clearly below our market rates. They are certainly on a concessionary basis and I don't see any way the United States will ever compete with that until we can offer the same kind of financing. Then maybe everyone will decide this is sort of a stupid game. But right now, my Italian clients and my French clients and my German clients are very pleased to get financing at 2 or 3 percent below U.S. prime rates and they are using that to finance their exports to the United States and doing quite nicely, which we are very happy about as a law firm, but not very happy about as taxpayers.

The SBA instituted a small program for a line of credit up to $500,000. Unfortunately, there was no separate funding for that program and probably worse, there was no great deal of in-house training so that if you go to the SBA and you are a small exporter and you say I would like to use this program, oftentimes they look at you and say what program and then you get to explain the program to them.

They would rather do asset-based financing, which they are used to, than try to fool around with this revolving line of credit for exports.

A study was done, I think, in the Carter administration of whether the SBA could handle that program and the answer was they could not, but the program went through notwithstanding. But there is no separate funding and so far as I know, there is very little lending under that authority, but it would be a revolving line of credit for small businesses to use up to $500,000 and it would be wonderful for small business because he wouldn't have to take down all the credit when he didn't need it. In other words, he could finance one export, get paid, pay down his line of credit, do another export and, of course, have a short exposure there where he would be paying interest, but it is a well-designed program. There just isn't any money and the folks who are supposed to be offering it don't seem to understand it. So, making friends, I will move on.

The Foreign Corrupt Practices Act, the legislation before Congress, Senate 708, does two things. For small business people the Foreign Corrupt Practices Act is a nightmare with which they are just not willing to deal and scared to death of, basically because it has rather stiff criminal penalties and it has gotten a great deal of publicity and the response among small business people is just to say, "I give up."

So, we support that Senate legislation mostly because the small businessman just doesn't have the staff and the access to expertise to help him sort out the Foreign Corrupt Practices Act and how to live with it. The Senate bill would basically make it easier to figure out if you are doing something wrong and make it easier to keep the necessary records to live within the act. So, we support that legislation.

In the boycott area, frankly, we find that the Internal Revenue Code provisions regarding the boycott is ridiculous. First, they raise no revenue and the Internal Revenue Service's annual reports on those boycott provisions clearly indicates that. The last one, I think, said the revenue generated was something like $12 million in additional taxes collected, so we are talking about a joke. Unfortunately, it is a bad joke on the small businessman because there are substantial reporting requirements in that act and it is confusing because the things that are prohibited under the Internal Revenue Code provisions are not necessarily prohibited under the Export Administration Act, which also deals with the boycott.

So, you can be wrong under one, right under another, or vice versa, but the real bottom line is under the Internal Revenue Code provisions you lose tax benefits. For many big companies it becomes nothing more than a cynical calculation of the lost tax benefits and if the deal is still worth doing, you do it. Under the Export Administration Act, you go to jail or you get fined.

So, people pay attention to the Export Administration Act. With the Internal Revenue Code provisions they calculate the tax loss and go ahead and do the deal, but the trouble for the small businessman is he can't calculate that tax loss and he certainly has a hard time filing all the reports that he is supposed to file.

I would estimate that when you get right down to it the Internal Revenue Service does not necessarily understand the boycott provisions. Most business folks don't and I am sure that most small business folks have no earthly idea what they can and cannot do, except on a very simplistic level.

In the antitrust area, and this comes back to the Export Trading Act, there is a proposed amendment to the Webb-Pomerene provisions, which would allow U.S. companies to form export associations and we support that legislation. It has sort of been knocking around up here for awhile and the argument seems to be about who is going to certify that the export trading association doesn't have antitrust problems, whether the Justice Department or the Commerce Department are going to do that.

I guess our response would be we really don't care which one. We just wish that you all could decide which one and let's get on with letting those export trading associations be certified by somebody and let them have the limited antitrust exemption that is in the bill. The antitrust exemption is not an exemption from private causes of action, but merely from governmental causes of action.

On the private side it reduces treble damages down to the damages, rather than trebling, which would certainly be a help. The big problem with export trading associations is, as you probably know, that it isn't the Government who is going to come get you. It is the fellow who wants to be part of the export trading association, but for some reason you really don't want him to be a part of the export trading association and he is going to bring a private antitrust action.

This bill is not going to stop him, but at least it is going to mean that you don't have to pay treble damages, which for small businesses is a real nightmare. The numbers just get so big that it becomes—it is sort of the horror story the lawyer explains or the accounting firm explains it and the people who would like to have the export trading association decide they could do something else.

So, if those five areas from the point of view of legislation that is now pending or Government programs that are ongoing, if we could get some help in those five areas, I think you would see small business have a lot more interest in export. Unfortunately, those are not the kinds of things that you can jump up and wave a flag about, but they are important and they are inhibiting folks from either getting into export or expanding the export activity that they are now engaged in.

Thank you.

Mr. **Ireland**. Thank you, Mr. Gornall.

Just in passing, before we move on to your colleagues you may be interested to know that tomorrow we will be talking to the IRS about their compliance with the Regulatory Flexibility Act. By having the IRS here, we will have an opportunity to strike a blow in favor of getting the DISC-type legislation straightened out and hopefully we can approach the IRS on the incentive plan, the carrot that you were talking about, to make it go.

Of course, most people's approach to the IRS is not the carrot approach; it is the stick approach and I guess we all have a tendency to want to use the stick when it comes to that agency. But, perhaps, we can get them tuned into doing something about DISC that will really help and I think you have touched on some of the main things.

Mr. **Gornall**. Mr. Chairman, maybe you could say you only get 10 pages of regulations no matter what.

Mr. **Ireland**. Yes, set it into 10 pages and we will go from there. That may be the only approach.

In addition, having been the father of the idea that the revolving line of credit was the way to help the small businessman in export so that he didn't have to draw down full line. We are having a little conference with the SBA on Friday morning to see why they are still tied to their old habit of asset-based financing when they should be doing the type of financing that could really help. I think the agency is willing; we just need to help them get moving in the right direction. It is something that is new and different and we all have trouble with things that are new. But that is one area that I certainly agree with you on and it would really be worthwhile if handled properly.

So, based on your comments, it will help us make some moves in that direction. I think that is quite good.

Would you move on?

Ms. **Martel**. I would like to ask Mr. Kilgore to make some comments, if that is all right.

Mr. **Ireland**. Mr. Kilgore, jump in.

TESTIMONY OF EDWARD KILGORE, CHIEF, EXPORT POLICY DEVELOPMENT, OFFICE OF THE GOVERNOR, STATE OF GEORGIA, ATLANTA, GA.

Mr. **Kilgore**. Thank you, Mr. Chairman.

I would like to make a few, very brief remarks on the effect on State export promotion programs of congressional action on small business exports.

Increasingly, the business of promoting exports, and small business exports, in particular, has become a Federal/State matter. Together, right now, the States spend nearly as much on international trade development as the Department of Commerce spends on its export promotion programs. State budgeting on international trade promotion has increased 400 percent since 1976.

So, both the level and the scope of State involvement in trade promotion is literally exploding and moving into some areas where previously it was assumed that the only services available were through Federal agencies.

Furthermore, I might note the majority of States target the bulk of their export promotion activities specifically to small businesses. Now, whereas the States are and will take on an increasing share of responsibility for small business export promotion, there are certain areas in which, by the nature of things, States are totally dependent on the Federal Government.

Clearly, the two most significant areas are in the elimination of disincentives to exporting imposed by Federal laws and regulations and, second, in the area of export financing, particularly for small businesses.

So, in considering actions in those particular two areas, and, of course, disincentives include all the items that John mentioned earlier, I hope the committee will keep in mind that there is a reverberating effect on State trade promotion programs and that in turn you really can't get an adequate grasp of what the country is doing as a whole to promote exports, unless you take the State involvement into account.

A second point I would like to make, which similarly reflects on the increased involvement of the States in export promotion, is in the design of Federal promotion programs in the future. We realize that the Federal Government is in sort of a dilemma right now. The condition of the international economy and the actions that our trade competitors are taking creates a greater and greater demand for Federal action on trade promotion.

At the same time you can't ignore the budgetary factors that makes the development of some massive Federal trade establishment virtually impossible. So, there will be a tremendous number of problems in developing an effective Federal trade promotion effort in the future.

It seems to me and to anybody that is involved in State promotion that it would be much more efficient if the design of Federal programs in the future could be coordinated much more closely with States, if only in the spirit of the New Federalism.

Unfortunately, some of the budgetary considerations that have determined the design of Federal trade programs in the past and I am afraid in the future simply don't take into account both what the States are already doing in trade, and, second, those types of services which only the Federal Government can provide.

To give you an example, States are almost totally reliant on timely, effective, broken-down, State-by-State trade statistics provided by the Department of Commerce. Yet, it seems year after year the collection and dissemination of trade data which is something really the Federal Government is in an exclusive position to do, is one of the first targets for budgeters or is given a low priority within the Department of Commerce.

Yet, that information is more valuable in designing State trade promotion programs than any other single service provided by the Federal Government. In turn, the ability of the States to serve small businesses really depends on the provision of that information, which is something that is certainly available in every other country in the world.

Hopefully, the States would like to see over the future a really rational sorting-out process in which the Federal and State roles and export development and small business export promotion are defined at the same time to eliminate duplication of effort and to insure that those services that can only be provided by the Federal Government, can be provided.

Finally, I would just like to add one note on the export trading company legislation, since it is at such a critical stage right now. The States, primarily through the National Governors Association, have been involved in developing and supporting trading company legislation for about 4 years now through two Congresses and two administrations.

Now, I know there is a lot of debate inside the Congress and out of the Congress as to exactly whether this legislation is going to work or whether it is going to have a massive effect, whether it is really going to help small businesses or larger businesses. But at this point, I think the feeling of every State trade promotion person I have talked to is either they think it is going to work or even if they are not sure it is going to work, they want to get the legislation passed, first, to send a signal that we really are interested in promoting small business exports and, second, so we can get on to something else, after spending several years of almost exclusive concern with this legislation.

Now, my understanding of the position of the legislation right now is that the conferees are sort of deadlocked over two antitrust provisions which have been a subject of dispute between the Senate and the House at least for 2 years now. I know if I could have other State trade people with me and people we represent, they would ask you to contact the conferees and inform them that no particular conclusion to the dispute is even nearly as important as its ready termination. If this bill is allowed to die and to drag over and start all over in the next Congress, I am afraid that the Congress will be sending a message, not just to small business exporters, but to all exporters that we really aren't serious about trade promotion.

I would echo John's statement that in terms of the merits of those disputes over the antitrust provisions, I think State people also agree that it would be helpful if the simplest possible certification procedure be adopted, whether it is housed in Commerce or the Justice Department.

Thank you.

Mr. **Ireland**. Thank you. That is an important comment. You have touched on the State's point of view what is needed from the Federal Government. Many people are not aware of how much is being done by the States. We have found, as you pointed out, a tremendous increase in what the States are doing and it could be further increased with some movement of activities from the Federal Government.

What do you find going on within your State in the local government area and the private area be it a chamber of commerce or any other private initiative? How about in other States? Do you think it can all be done by enhanced State activity?

Mr. **Kilgore**. No, Mr. Chairman, I don't think any of us suppose that the States can do everything, just like the Federal Government can't do everything. In fact, the States have sort of the same task the Federal Government has in recognizing that there are other units of Government that have a stake in trade development.

Whereas, this may not be true equally among the States, I think in many States you have had the same sort of proliferation of local government involvement in trade promotion as you have had at the State level. Well, there are certain large cities that have pretty much their own trade promotion programs.

In other cases there are quasi public port authorities or regional development authorities, which bear the major brunt of trade development activities. And as you have suggested, I think the private sector export promotion activities, both within and without chambers of commerce are becoming very important.

Just one final note on the private sector export promotion activities, I think the feeling we have in our State is that one extremely important aspect of export promotion that occurs certainly outside

State trade programs and to a large extent in the private sector is export-related research, which is conducted in universities and in a lot of private think tanks.

Frankly, we are really going to be at a loss in developing a budget cost-conscious effective State trade promotion program if we don't have some really timely targeted research, particularly in the small business area. We have at least one major institution in our State, which is primarily interested in small business development activities, and they are increasingly getting interested in conducting research on small business exports.

So, I really think that the States need to work to the maximum extent possible to mobilize all the resources within the State; not necessarily calling the shots, but at least providing some sort of overall framework in which local governments, the private sector and state programs can be designed.

Mr. IRELAND. How would you respond if I were to tell you that my observation about many things academically oriented in our universities are creating a lot of nice jobs among the sedentary? However, they are coming up with a lot of information that is totally worthless. Is this because it isn't targeted by actual experience to what is really needed, or at the very least in a form that is not usable?

Mr. KILGORE. Well, Mr. Chairman, I can speak honestly on this because I originally came from one of those think tanks and I think you are right. I tend to think, though, to a certain extent that is because, at least academically, exports are sort of a new, sexy field in which the competition for research is still national. It is not really targeted to specific local needs in many cases and a lot of times somebody at some State university or private university feels like they can be the first on the block nationally to produce some esoteric study on a trade-related matter.

I think once, at least at the State level—first, we have to develop that sensitivity to practice business needs that you speak of as being needed among academicians and, second, I think to the extent that universities and think tanks and so forth are working on behalf of either the Federal Government or the States, I think it is our job to ask for specific targeted research and not simply provide money for some sort of academic fishing trip to come out with the first study on a particular subject to the whole Nation.

I do think that is a very significant problem. It is something we are looking into in Georgia.

Mr. IRELAND. It seems to me here there is the question of whether that research is what is needed. There is also a problem in the delivery system. There was just released at the end of this last week a very thorough study. I speak having only had a chance to look at the study casually and plan to look at it in more detail, but it is a study produced at the graduate school at the University of Texas among small businesses—10 employees and less. It is an in-depth survey that indicates and supports much of what our first witness told us, that the small businessmen are not really getting the information that everybody is wanting to hand out to them. I'm not sure what the problem is but somehow, some way, this vast amount of specialized knowledge isn't being delivered to those who need it.

Something needs to be done about that because it is going over the heads or under the feet of the very people that need it. I don't know whether it is the State or the local chamber of commerce, but somebody needs to deliver it. I am not sure I have the solution. I tried to provide a lot of it as a local banker before I got mixed up in this business and I know it is hard to get them in. Somehow we need to be addressing how you deliver that material because if it is not delivered, it is worthless.

Mr. **Gornall**. If I could respond a little bit?

Mr. **Ireland**. Fine.

Mr. **Gornall**. Two State programs in which you might have some interest is that we have an institution in Georgia called the Georgia Wocongus Institute, which is a joint venture between the university system and the Governor's office and they recently did a study which people are literally killing to get their hands on. The study basically looks at the State effort in attracting reverse investment and the efforts of all the States, what their offices do and don't do, what they do well and don't do well and how they might do it better.

That kind of study, I submit, is something that is very good for a policymaker, a new Governor of a State to read and figure out where he is going to spend his money to get the most effect in attracting reverse investment.

So, some of that stuff that you get big tomes of it and should throw in the drawer, but I think that study is going to be read by a lot of folks——

Mr. **Ireland**. Are we in a position among your group to have that report submitted for the record? That sounds like something we ought to know about. We will let you do the killing for it instead of us.

Mr. **Gornall**. That is right. We will get it.

As to the other comment about how to get the information out, it is not our experience that the 10-man firm is interested, but I think at a point in a size of a business at some maturation point, where the chief executive gets to the point where he is not worried about the next payroll and he has more than $3 in his jeans, he starts to think about export markets. In our State, I think the policy decision has been made and we are trying to implement is you just basically have to go get them. In other words, you can't be reactive to the fellow who finally stumbles into the office one day and says what is all this exporting stuff or I got this unsolicited order from some country whose name I can't even pronounce; what do I do with it?

Actually, one of the folks in the State Development Agency is on the road and his job is to basically go out and get them and the industries are identified often through the Commerce Department's data collection and some State data collection and they actually just go out and say you ought to be exporting and here is why, which seems to be the only effective way.

I think Ed would agree that the Governor has found that if you just wait for them to come to you, you may wait a long time and nothing happens.

Mr. **Ireland**. That is right. That is good. That is a good comment.

Ms. Martel.

Ms. MARTEL. I would like to make some wrap-up comments on a number of issues.

TESTIMONY OF CAROL MARTEL, DIRECTOR, INTERNATIONAL DEPARTMENT, ATLANTA CHAMBER OF COMMERCE, ATLANTA, GA.

Ms. MARTEL. I have added for the record a number of, I guess for lack of a better term, complaints from Georgia businesses, which we solicited as we were putting together this export policy statement that we did, which has also been submitted for the record.

These complaints really cover a variety of issues, including delays in licensing experienced by an Atlanta maker of computer terminals. Another one is a situation where a textile manufacturer in the State of Georgia is finding himself totally noncompetitive in world markets, has recently experienced a loss of one of his best customers in all of Europe because of some nontariff barrier-type delays in France, where they determined that the content of his material going in was other than what he said, but they happened to come to that conclusion by using a totally different testing method which had never been used before and was unacceptable under international trade agreements.

Another is the high insurance premiums that the small business exporter has to deal with in FCIA insurance, which is making his cost factors greater and a third statement, which is basically a preview of some of the job losses which are to be expected in the Georgia poultry industry, which is one of our largest agricultural exporters because they are fighting the European economic communities' subsidies, particularly the French, of poultry going into third-country markets.

Just to wrap up a few points, in talking about local activity in Atlanta and Georgia, we would like in the Atlanta district to see a much more aggressive stance by our local Department of Commerce office. Again, I emphasize the fact that the small business exporter who may have a perfectly wonderful product may be fairly new on the market and is doing his best to keep it going from Maine to California, is not necessarily going to stumble in to the export office at the trade administration in the district office in Atlanta.

It needs to be something where the Department of Commerce is keeping track of new ideas, new businesses that have developed and going out and aggressively talking to those people about markets that they ought to be soliciting elsewhere in the world and a great deal of what seems to be happening, and this comes from reports of both retired and present Commerce officials in our local district office—a lot of what happens is the sale of publications. Many of the publications that are published by the U.S. Department of Commerce are quite good. Many of them, quite frankly, are quite bad. I know I tried recently to get some information on exporting for some of our minority firms in Atlanta in exporting to Nigeria and the latest country market study that I could lay my hands on was 1979.

Now, I realize that there are much more up-to-date trade lead opportunities, but these were beginners. They needed to know a lot more about Nigeria and what can happen to you going in if you don't know what you are doing and there are many, many pitfalls in Nigeria and many other countries of the world, as you well know.

Many of our Commerce people have often complained they are supposed to be out traveling the State, talking to small businesses, talking to people about getting into export or expanding export. A recently retired trade specialist from our local office said, well, now, I have a 3-day workweek, 3 days of that is doing the paperwork, which is reporting from the 2 days of calls that I made in order to try to get somebody into export. That is ridiculous. So, we would like to see some of that cut out as well.

Rick McElheny of the U.S. Department of Commerce here in Washington has started a new effort to place private sector, export specialists in our commercial offices around the world. I praise that initiative extremely highly and would like to ask that he consider the same effort in local offices across the United States as openings occur. Obviously, if he is convinced that the private sector man who has been involved in export for whatever reason, that has been interested in moving into the U.S. Department of Commerce offices abroad because of his knowledge of seeking and developing export markets, if he can do it abroad, he can certainly do it in Atlanta, Ga., and he can talk to the new exporter or the small exporter about expanding his business and go through exchanged and shared experiences. I think that would be a good way to look at filling some of these openings that come up.

On the export trading company legislation, I would like to again state that we consider that extremely important. We would like to emphasize, however, that that is a good beginning, but it is not enough. We need to continue to make trade one of our highest priorities and I feel that as many of the delegates I know from our State look at the export trading company legislation, we are trying to encourage them to support that fully, but also to consider that this is just the beginning of their trade activity and not the final solution to our trade problem.

Speaking about the Georgia delegation, one of our plans as we leave here this morning is to meet with the staff people of the Georgia delegation, who are involved in trade issues and we are beginning to try to network with our own delegation so that we can emphasize on a consistent basis with the same point people trade issues that the business community finds important, where we need to work with each other in order to get through the points to the subcommittees and to the workings of Congress here.

The last and final, I guess, most recent legislation that is being proposed is reciprocity legislation, domestic content legislation. I have not yet talked to a business person who has been fully in favor of the reciprocity legislation, primarily because they are concerned that if we hit somebody on automobiles, they are going to hit us on whatever is available. They would prefer that we continue to work aggressively and steadfastly on breaking down the nontariff barriers imposed by many of our trading partners and cosignees with that, rather than taking on reciprocity legislation, which they feel could possibly get out of hand.

Also, a feeling that the small business is going to be the loser in reciprocity legislation because the big guys are probably going to have the special interest lobbying efforts that will get them through and get their cases brought to the attention of the trade representatives office of whatever and that their issues will be solved. So that if, for example, Japan gives in on computers for IBM, they may well decide that they are going to block out something else and that is going to affect a lot of other small business exporters as well.

Thank you for your attention.

[The memo of the Chamber of Commerce follows:]

MEMORANDUM

To: U.S. House of Representatives, Committee on Small Business, Subcommittee on Export Opportunities and Special Small Business Problems.
From: Atlanta Chamber of Commerce.
Re: Legislative developments and positions regarding export problems.
Date: September 17, 1982.

I. INTRODUCTION

This memorandum is intended to indicate those issues of particular interest to the Georgia Delegation regarding exporting from the United States. In particular, Georgia has a special interest in this area since various sectors of the state's economy have relied substantially upon export revenues for their respective markets. The particular issues to be dealt with in this memorandum are the following:

1. "Reciprocity".
2. Trade in international services.
3. Financing for the U.S. exporter.
4. Foreign Corrupt Practices Act.
5. Internal Revenue Code and Export Administration Act provisions regarding the Arab boycott of Israel.
6. Foreign subsidies to agriculture.
7. Modifications to the Webb-Pomerene Act.
8. Product standards.
9. DISC/ISC.

II. DISCUSSION

1. "Reciprocity"

"Reciprocity" means equal treatment applied to given products and services at home and abroad. It entails a comparison between the treatment accorded American goods and services in foreign markets and treatment accorded foreign goods and services in the American market. It is to be distinguished from the concept of "national treatment." "National treatment" means treatment of foreign goods in a domestic market on the same basis as domestic goods. The basic point to remember is that the present concern with the reciprocity principle is merely a derivative of the problem of guaranteeing equivalent access for United States goods and services to foreign markets.

With this in mind, we note that the main legislative proposals to bring the concept of "reciprocity" into American international trade legislation, such as S. 2094 (Senator Danforth) S. 2071 (Senator Heinz), and H.R. 6773 (Representative Frenzel) focus upon augmenting presidential authority to retaliate against foreign practices, pursuant to Section 301 of the Trade Act of 1974. We do support those aspects of this legislation which would require the President to maintain a list of foreign barriers to United States goods, services and investments, and to provide Congress with estimates of the impact of such barriers upon the United States economy. However, we feel efforts to increase presidential retaliatory options are ill advised. First, augmentation of the presidential retaliatory power will result in increased barriers to foreign markets rather than decreased barriers. Secondly, the presently proposed legislation does not define that concept which it seems to implement; namely, "reciprocity." Third, those provisions of the presently proposed legislation which permit the President to circumvent international dispute settlement procedures may place the United States in violation of various treaties and agreements such as the GATT. In this regard, we support the Senate Finance Committee's most recent revision of S. 2094 which eliminates such provisions. Finally, we note that of the 31 cases initiated under Section 301 of the Trade Act of 1974, only 3 have gotten to the point where presidential action is called for. This indicates to us that Section 301 is more of a dispute settlement procedure than retaliatory weapon; and given the rather high rate of settlement under Section 301, it appears that the statute as presently drafted is working satisfactorily.

Finally, we feel that an industry by industry approach to implement the reciprocity concept is counterproductive and would lead to retaliation by our trading partners. Accordingly, we oppose H.R. 5133, the automobile "local content" bill.

2. Trade in international services

The service industries account for approximately 71 percent of Georgia's labor force. In Georgia during the 1970–1980 period, increase in employment in the services area far exceeded employment increase in other areas. In addition, there are quite a number of smaller enterprises which have but recently reached that development stage where they could seriously consider export markets. Their entry, however, has been impeded by a number of non-tariff barriers. For example, in the building, construction, engineering and related consultant industry, there have been complaints from Georgia businessmen about the following barriers:

(a) Non-transparency of foreign laws—especially obtaining reliable information which indicates the policies such laws are intended to implement, as well as foreign governments' enforcement and compliance policies.

(b) Ascertaining which, or if, domestic parties from the foreign country will be preferred in bidding competitions.

(c) "Staleness" of information disseminated by United States government agencies.

(d) In a "package bid" which would, for example, include design, architecture and engineering, and construction services, the granting of subsidies to a component service in such "package," resulting in an artificially low bid.

(e) Indirect labor subsidies which often take the form of labor in a specific industry being supplied by citizens who are working in order to fulfill their respective nation's national service requirements (i.e., Korea-choice of entering the military service or working in the construction industry).

We enthusiastically support the United States' efforts to place the issue of non-tariff barriers to international service industries on the agenda for the November, 1982 GATT ministerial negotiations. Additionally, we support the Senate Finance Committee's most recent revision of S. 2094 which would authorize the President to enter into international negotiations targeted at the elimination of non-tariff barriers to trade in services. We also support those sections of the Senate Finance Committee's revisions to S. 2094 providing for the collection of data regarding foreign non-tariff barriers to the services industry as well as the establishment of a Service Industries Development Program by the Department of Commerce.

However, we also feel that it would be ill advised to provide for "reciprocity" sections in the United States international trade laws regarding services. Further, we feel that augmentation of the President's retaliatory powers pursuant to Section 301 of the Trade Act of 1974 would be counterproductive, and would result in an increase in foreign non-tariff barriers to the American services industry. Finally, we oppose the foreign registration requirement in H.R. 5519, as it is presently drafted. We feel that such a requirement would merely give foreign governments a pretext to increase the already onerous bureaucratic and other burdens upon United States exporters wishing to do business in such foreign governments' jurisdictions.

3. Financing for the U.S. exporter

The basic problem is that our trading partners often subsidize export financing. In third country markets, this has often meant that United States' exporters have lost out on sales to foreign bidders who could underbid them due to such subsidized financing. Even in the United States' own domestic market, United States companies have been losing substantial business with an alarming frequency to foreign bidders who have employed subsidized financing. The recent railway passenger cars case in New York City, involving financing subsidized by the Canadian government, was a rather vivid example of this.

We support the United States' efforts to pursuade its trading partners to increase their respective financing charges on export transactions to near market rates. However, the results of the most recent negotiations on this matter indicate there is but minimal promise of success, and whatever success may be obtained, will not appreciably aid United States exporters. In view of this, the current effort to decrease the Export-Import Bank's loan ceiling authorization is particularly ill advised. We support S. 2600, which would remove the Export-Import Bank from the Federal budget, so that the Bank will not be as susceptible in the future to political controversies which should be extraneous to it. The "war chest" provisions of S. 2600 are worthwhile; however, we also note that a $2 billion ceiling is less than that amount which France alone devotes to subsidize export financing. Moreover, we would like to see some assurances in any Export-Import Bank bill that there will be a concerted effort to direct export financing to small business. Despite protestations to the contrary, we have found that the Export-Import Bank does not presently finance small business.

The present FCIA Special Small Business Policy is inadequate. The premiums charged for such a policy are too high for a small business exporter to bear. Further, the policy's two year limitation essentially means that just when a small business has begun to penetrate export markets, the option of using the Special Small Business Policy is no longer available.

The recently implemented Small Business Administration Export Revolving Line of Credit is deficient. First, there has been no special funding for this program. Secondly, this program is merely a guarantee program and its success is entirely dependent upon the private commercial banks' willingness to extend credit to small businessmen. Finally, since the pilot program preceding this program resulted in only one loan, we doubt that the Small Business Administration possesses the required expertise to administer this program.

4. Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act ("FCPA") is vague in a number of crucial areas and functions as an export disincentive. Small businessmen are particularly affected by this because it is especially the small business exporter who lacks the time and resources to engage in a thorough FCPA analysis while planning a foreign transaction. Accordingly, there are quite a number of points in the anti-bribery sections of the FCPA which we would like to see clarified. The FCPA does not define when a payment is "corruptly" made. The FCPA does not clearly indicate when facilitating payments to minor ministerial or clerical officials are permitted. Not only is such vagueness a substantial hindrance to planning in view of the FCPA, but it also renders the recently enacted Tax Equity and Fiscal Responsibility Act's ("TEFRA" Publ. L. 97-248) incorporation of the FCPA's allowance for such facilitating payments an obstacle to TEFRA planning as well. As enacted, TEFRA permits business expense deductions for otherwise illegal facilitating payments which are permitted by the FCPA. Additionally, the FCPA does not indicate when officials of state-owned companies shall be considered public officials. Further, with respect to third party payments, the FCPA does not indicate when an exporter is deemed to have "reason to know" that his agent, distributor or partner will make payments to a foreign official in violation of the statute. The FCPA does not indicate whether a private cause of action may be initiated pursuant to its bribery provisions.

With respect to the FCPA's records and accounting provisions, we think that the statute should make it clearer that, in most cases of small, closely held businesses, the records and accounting provisions will not apply. In cases where such provisions will apply, we note that the FCPA does not sufficiently delineate the accuracy required by statute in the keeping of books, records and accounts. Finally, the FCPA does not indicate under what circumstances a parent company will be deemed liable for its subsidiary's violations of the records and accounting provisions of the statute.

We support S. 708, substantially as passed by the Senate this past November. We support its elimination of the "reason to know" language regarding certain third party payments. Its explicit exemption of facilitating payments from its prohibitions clarifies the FCPA substantially. We support S. 708's exemption of customary travel and entertainment expenditures associated with the selling or purchasing of goods and services, "demos", or product explanations. We feel, however, that the lack of a "materiality" standard in the accounting and records provisions of S. 708 means that it shall remain especially difficult for a small business exporter, if he falls within the statute's coverage, to comply with the FCPA. In this respect, we support the insertion of a "materiality" standard into the records and accounting provisions of the FCPA, as H.R. 2530 expressly provides. A "materiality" standard will make it easier for small businessmen to comply with the statute, and will render the statute less of an export disincentive.

5. Internal Revenue Code and Export Administration Act provisions regarding the Arab boycott of Israel

A. Internal Revenue Code

The current Internal Revenue Code ("IRC") provisions regarding the Arab boycott of Israel are highly technical, and are not comprehensible to either businessmen, tax advisers, or even IRS agents. The IRC prohibitions are similar, but not identical to, the Export Administration Act prohibitions regarding this subject. This causes much confusion, since often compliance with one statute is not compliance with the other. The IRC provisions require extremely costly reporting procedures, which are especially burdensome to those engaged in export on a small scale. Further, the IRC anti-boycott provisions have resulted in comparatively little revenue. Moreover, because of the IRC's basic sanction of denial of certain tax benefits, the IRC boycott provisions do not deter compliance with the Arab boycott, but rather, turn cooperation with such boycott into a mere cost of doing business. The Export Administration Act provisions regarding the Arab boycott of Israel are much more effective because of the fines, criminal penalties and possible seizure of shipments which are included in that statute as sanctions. Since the IRC boycott provisions do not deter compliance with the Arab boycott, result in little revenue, require costly reports, and are supplanted by the Export Administration Act, we recommend that the current IRC provisions be repealed.

B. Export Administration Act

The Commerce Department has recently adopted an interpretation of its regulations providing that when the terms of a letter of credit clearly require that its beneficiary certify that it is not on a boycott blacklist, a bank's refusal to pay on the letter of credit if such letter's beneficiary will not provide the required self-certification shall be deemed to be a prohibited refusal to do business. The Commerce Department's original basis for this regulation was its interpretation of the earlier regulations that a bank may pay on such letter of credit, but may not "insist" upon the negative self-certification contained in such letter. We feel that it is still necessary for the Commerce Department to explain the ultimate basis for its position that bank payment upon such a letter of credit is permitted, but "insisting" upon a condition contained in such letter is not. We feel the present explanation for this position remains unclear and would like to see the Commerce Department further refine the explanation it has recently published.

The Commerce Department has also adopted an interpretation to its regulations which prohibits the implementation by banks of letters of credit including conditions prohibiting the negotiation of such letters by banks whose names are included in the Israel Boycott Blacklist. We feel that the Commerce Department should issue guidelines more precisely indicating those circumstances in which it will deem a beneficiary's implementation of a transaction in the face of such a condition in a letter of credit, without more, to be agreement to such condition.

We agree with the Department of Commerce's recent additions of "vessel-eligible" certificates and insurance company certificates regarding presence of authorized agents or representatives within a specific country to its list of non-reportable requests. Finally, we find nothing objectionable about the Department of Commerce's addition of "risk of loss" clauses to non-reportable transactions.

6. Foreign subsidies to agriculture

Georgia's agricultural industry has been particularly hard hit by competition from subsidized goods in third country markets. We have found that the stiffest subsidized competition comes from the French poultry industry competing for sales in third world markets. The poultry industry estimates that, for the first quarter of 1982, total exports decreased by 25 percent. For Georgia, on a projected yearly basis, this would mean the loss of approximately 2 million payroll dollars, and the loss of about $860,000 in revenue for small family farmers. Sources in the Georgia poultry industry estimate that if such foreign subsidized competition in third country markets is permitted to continue, the state's export poultry industry will be totally eliminated by 1988.

7. Modifications to the Webb-Pomerene Act

The basic problem with the present statute is that there is neither a substantive nor procedural guarantee of the anti-trust immunity accorded by the statute. We find that both, the Senate and House, versions of S. 734 only partially address this issue. The House version is particularly deficient because it does not provide for any immunity with respect to possible private causes of action but merely limits recovery to actual, rather than treble, damages in such actions. Since it is probably the private cause of action which will be the basic problem under a revised Webb-Pomerene statute, lack of immunity from such actions merely perpetuates the problem which such a revised statute is intended to resolve.

Further, since both versions of S. 734 provide for certification procedures, we feel it is necessary that such procedures be as streamlined as possible. A complicated certification procedure will act as a further disincentive to small businessmen interested in exporting under Webb-Pomerene immunity, since they will be in the least favorable position of complying with such procedures due to the time and expense which such procedures will involve.

8. Product standards

First, the experience of at least one major Georgia exporter has indicated that where countries, such as for example Germany, have published product standards, the Department of Commerce has neither English language translations of such publications, nor personnel who can translate them. English translations of foreign product standards must be available to small business exporters.

Secondly, in the agricultural area, Georgia based food brokers have found an increasing loss of export sales due to U.S. packaging which does not meet metric standards. We call for legislation requiring immediate implementation of the metric system regarding food packaging.

9. DISC/ISC

Under current United States law, United States exporters are entitled to utilize a domestic international sales corporation ("DISC"). The DISC provisions of the Internal Revenue Code ("IRC") really involve the establishment of an incorporated pocketbook which permits a United States manufacturer to defer current United States income taxation of approximately one-fourth of its export profit. These funds can then be reinvested to expand exports. The economic value of the DISC is basically the amount of taxes deferred multiplied by the number of years for which the taxes are deferred multiplied by the cost of funds. This is not much of an export incentive when compared to tax benefits made available to exporters by our trading partners. The usefulness of DISC is further hampered by incredibly complex regulations promulgated by the Internal Revenue Service ("IRS") and the antipathy on the part of the IRS to the DISC.

Notwithstanding these problems, DISC has assisted many smaller businesses to begin export operations and to expand them with before-tax dollars.

Other developed countries basically exempt earnings from export sales from their income tax. Our trading partners will make arguments to the contrary; however, tax attorneys and accountants representing foreign companies can state from experience that this is the case.

Much has been made of the GATT Council's determination that DISC is in fact a subsidy prohibited by the GATT. Much less publicity has been given to the fact that the tax systems of the Netherlands, Belgium, and France were found to be export subsidies in violation of the GATT by a GATT panel of experts.

The tax systems of our trading partners which basically exempt export earnings from domestic taxation are based upon the territorial system of taxation, that is, foreign source income of domestic corporations or persons is not taxed until repatriated to the home country.

H.R. 5179 contains a proposal incorporating the territorial tax system to a limited extent into the IRC. Under the H.R. 5179, a United States exporter may establish an "international sales corporation" ("ISC") in any country which has a corporate income tax. This proposal is a partial step in the right direction. It partially provides a functional equivalent of the tax exemption of export earnings available to our trading partner competitors.

Unfortunately, the proposal falls far short of placing United States exporters on an equal tax basis with their competitors. There are a number of flaws in the ISC legislation. First, an ISC must be incorporated in a country which has a corporate income tax. Our foreign competitors face no such restriction. They establish their export sales corporations in tax haven countries. There is no reason for this requirement other than a general antipathy to tax havens. Unfortunately, our trading partners are beating us to death with tax havens.

For an ISC to remain qualified for limited tax deferral it must sell goods produced within the United States by related parties. This requirement would basically deny the ISC benefits to United States trading companies. The typical United States trading company greatly increases the exports of United States goods. These trading companies handle large volumes of exports, while working on very low margins. To deny ISC benefits to these facilitators and generators of export sales is without reason. In other words, there is no reason why a United States trading company which buys from unrelated parties in the United States and sells those goods abroad to unrelated parties should be denied ISC benefits.

Third, presently H.R. 5179 requires that an ISC make sales to unrelated parties abroad. There is no reason why sales to related parties abroad should not be allowed. Often in a multi-national group, the United States parent manufacturing company would establish an ISC to make sales to its subsidiaries or joint venture companies abroad. The sales are just as much export sales as sales made to unrelated parties since the foreign subsidiary generally sells the product to an unrelated foreign purchaser.

The ISC provisions as presently drafted require that the ISC be established in a foreign country and that it have some substance, that is, for example, an office and employees abroad. This will deny ISC benefits to that sector of the economy which needs them the most, that is, small businesses and persons new to export. As it has been shown by almost every recent economic study, small companies are the major job creators in this country. We recommend that companies meeting the Small Business Administration's small business definition be permitted to utilize a foreign incorporated ISC with no substance outside the United States and with offices in the United States. This is not possible under current tax law or under H.R. 5179 as presently drafted.

As presently drafted, an ISC is permitted only four shareholders. This would almost certainly preclude the ability of an ISC to perhaps raise funds from unrelated parties. There are a number of trading companies in Georgia which have been formed and capitalized through public stock offerings and which have 25 or more shareholders. There is no valid reason for proscribing the number of permitted shareholders.

Recent information regarding Senator Boren's S. 2708 indicates that it would, in many respects, address some of the problems in H.R. 5179. We support S. 2708's provisions which we have been informed impose no limitations on the number of shareholders in the export sales corporations ("ESCs") it contemplates. Additionally, we would support those provisions of S. 2708 allowing Subchapter S corporations to own ESCs as well as an allowance to ESCs of a $5,000 credit for administrative expenses. We support the effort in S. 2708 to take account of small business' needs.

Finally, we want to see the details of the United States Trade Representative's suggested DISC alternative, providing for permanent exemptions for income deferred under the present DISC statute, published for public review as soon as possible.

III. CONCLUSION

This memorandum has outlined some of the difficulties faced by potential U.S. exporters in Georgia, particularly small businesses. It is essential that Congress and the Administration understand the impact of these trade disincentives, and recognize in particular the importance of providing financing and tax benefits for exporters comparable to those provided by our trading partners.

Mr. **IRELAND**. I feel very strongly and share your feeling about getting the employees of the Department of Commerce and for that matter the SBA, a little bit more aggressive about the outreach program that you mentioned.

I would point out that you have right there in your midst in Atlanta a tremendous resource. There is now a retired banker in your community who built a nationwide reputation among bankers for the phenomenal growth of his bank that was built around his officers getting out and "making their calls." He always said that he had an incentive program and all bankers around the United States were eager to hear what his incentive program was. He said that it was simply that his bank officers knew that if they made their calls, they got to keep their jobs. I think if we have a little of that attitude we would be in better shape and I think we could help these people in the private sector if we could show them that in the real world it doesn't take 3 days of paperwork to support 2 days of milling around the territory. This is something that the private sector can certainly help the public sector in solving that problem in every community, not just in Atlanta.

There are people who are doing it efficiently and if we can get the public sector to be willing to understand and learn that, I think we can make a powerful step forward.

We have been joined by the gentleman from Ohio, Mr. Weber, who has just arrived on the plane and we are glad to have you here. We realize that you haven't had a chance to——

Mr. **Weber**. My apologies for not getting here earlier.

Mr. **Ireland**. You are forgiven, but catch up.

Mr. **Weber**. I will.

Mr. **Ireland**. Let me ask the staff director here if he has a question.

Mr. **Lynch**. I would like to follow up on the gentleman's comments and earlier information that when the budget is cut that the Commerce Department takes some money out of the information data collecting sections.

We have heard when we really began on the issue of exports late last Congress, most of the complaints seemed to be the information that does come out of the Department of Commerce is either (a) stale, so old it is not really useful anymore, or (b) if it isn't stale, it is either incorrect or something along those lines.

Now, have you encountered that, that what information they finally do get out really is not that useful for the export market?

Mr. **Kilgore**. The impression I get is that really in collecting this data to begin with they aren't really keying in the sort of variables the States really need to use the material and as a result they sort of, in a piecemeal fashion, go back and analyze it and try to come up with data that suits our needs instead of building it into the system to begin with. That creates delays, the staleness you were talking about and it increases inaccuracies.

The timeliness issue and having the data broken down in a way that we can really use it are probably the two most critical things. I heard one State trade person recently saying that they had an embarrassing situation where he went up to Ontario, I believe it was, on a trade mission and the people up there provided him with detailed trade statistics on exports from his own State that he didn't receive for another 6 months. So, that is the sort of thing you hear. I don't think there is so much complaint about what the Commerce Department is doing. Everybody knows they are under intense budgetary pressure and some improvement in this area has developed because Assistant Secretary Morris has certainly put a greater emphasis on Federal/State relations in trade.

But the frustration comes from the feeling that that is the single most important thing the Federal Government does for the States in the trade area and that it should be given that sort of emphasis.

Mr. **Lynch**. Thank you.

Mr. **Ireland**. I think just in passing, a really important thing here, is pointing out what Secretary Morris is doing. There are really some outstanding moves going on in the Department of Commerce along that line, back to the carrot rather than the stick, and we need to encourage what is going on there so that we have these people reaping the rewards of the private sector's successes and not spending all their time defending what they did. That is in the past and we wasted a lot of time defending past actions instead of improving future actions. It appears that all of you have taken a pretty positive attitude along that line. That is, I think, a healthy sign.

Thank you all for——

Mr. **Weber**. Could I have——

Mr. **Ireland**. Yes, indeed.

Mr. **Weber**. I haven't had the opportunity of reading the testimony. Have any of you testified or would you care to comment on the question of currency evaluations and especially the problem of the alleged undervaluation of the Japanese currency in relation to the American dollar, which has the effect of cheapening imports, Japanese imports, into our country and increasing the price of the American exports?

Mr. **Gornall**. Well, I guess my response would be that any good economist could tell you that when the Japanese—we have a lot of Japanese clients by the way—but when the Japanese say that they have reduced tariffs and that they really are trading on an equal basis, when you look at the intentional devaluation of the yen, which goes on year after year after year, it is very clear that that is a very powerful trade tool and that they have consciously chosen to do so.

There is no doubt in any of the folks who study international economics that that is a consistent policy taken by the Japanese Government and they have gotten away with it. When I say "gotten away with it," nobody has really put their finger on it until the last 6 months, when it apparently is becoming more and more clear that that is a consistent policy, but it is a consistent policy and it works.

It has worked. It is working and it is very difficult. We, for awhile, in this government or at least part of the prior administration, adopted a cheap dollar approach, which after awhile began to work in the sense that it did generate more exports and a number of our clients, although it takes awhile for that—there is a lag time. When Secretary Blumenthal took down or tried to arrange a policy so that the dollar became cheaper, U.S. exports in many areas responded accordingly.

So, I don't think there is any doubt that the Japanese have done it and they have done a great job of it. No one has really said wait a minute, you are doing this to us and it is working, but it is.

Mr. **Weber**. You say there is no doubt. Is there evidence?

Mr. **Gornall**. I think it is a consistent government policy to just intervene to make sure that the yen doesn't get bid up. If you look at their balance of payments and you look at how their economy is—right now, their economy is having some problems, but in prior years the exchange rates just don't make any sense and the Ministry of Finance clearly does intervene in the market often, apparently to keep the value of the yen below what it would otherwise go up to if it were floating free.

I often wondered why a country like Japan that had a huge trade surplus wouldn't let you ship anything in unless it was being paid for by a letter of credit and then somebody brought it to my attention that that is a way to keep track of everything that goes in and goes out. You know, if you want to import anything in

Japan, you have to import it through a letter of credit or get special permission to import it on some other basis.

And I said why and finally one of my Japanese friends from the Ministry of Trade said that way we know exactly what is going on, every dollar, every cent, every penny, and we can respond accordingly.

Another area that is very clear is the Japanese banks. Japanese banks are leveraged 70 to 1. United States banks are leveraged 35 to 1. It is no secret how you can make more loans if you are leveraged 70 to 1. How can they get away with it? The Japanese have never allowed a bank to fail. We have allowed banks to fail. Simple case of Japanese banks can clobber U.S. banks because the government supports them in a different way.

I am not saying it is right or wrong. It is just very clear that the Japanese government intervention into the private economy and the support of their industry is different than what we do. Whether it is good or bad is another decision.

You know, if you would get candid Japanese folks, they will tell you that they purposefully undervalue the yen. If you really get a captain of Japanese industry off and get a couple of scotches in him and get him fired up, he will tell you they can't believe how they lost a war to boobs like us and, second, that the yen is undervalued.

Mr. **Weber**. They drink scotch? I thought it was saki.

Mr. **Ireland**. That is the trick, to get the scotch into them. But don't forget, there are some tariff barriers on that scotch.

Mr. **Gornall**. They will drink scotch after you play golf.

Mr. **Ireland**. Thank you all very much.

Mr. Joyner, vice president of the American Export Group, Washington, D.C., thank you for being here.

Mr. **Joyner**. Thank you very much.

TESTIMONY OF NELSON JOYNER, VICE PRESIDENT, AMERICAN EXPORT GROUP, INC., WASHINGTON, D.C.

Mr. **Joyner**. My name is Nelson Joyner. I am vice president of American Export Group, International Services, a successful international trading company headquartered here in Washington. We are a United States version of a Japanese-style trading company.

I am also adjunct professor at Georgetown University's School of Foreign Service, where I teach courses in export. I have also written a three-volume handbook on How to Build an Export Business. I would be pleased to provide a copy of this handbook to the committee.

Mr. **Ireland**. We appreciate that. Thank you.

Mr. **Joyner**. I am a member of the U.S. Chamber of Commerce's Export Policy Task Force and I certainly thank you very much for the opportunity to be here. My remarks today relate to the criteria for successful exporting. I shall also identify one factor critical to export success and suggest how U.S. export promotion policy might take advantage of this factor for more rapid export growth.

One aspect of exporting which has always interested me is what are the criteria for export success. I believe that there are three criteria which must be met in order for a firm to be successful. I think there is agreement between practitioners and those in the academic community as to these criteria. First, the top manager or owner of the firm must be personally committed to export and that commitment must be communicated throughout the company.

Second, the responsibility for export must be assigned to one individual. If the export effort is initially small within the firm, that one individual might also be assigned other responsibilities, in other words wear two hats. But there should always be a clear definition of who has the responsibility for export. And, third, there must be a plan which need not be an elaborate one.

If a firm fails to meet these three criteria, there is little likelihood of export success. Even if a firm does meet these criteria, there is no guarantee for success.

For a firm committed to export, usually the biggest factor as to how rapid its export growth is how soon that firm hires or assigns a full time export manager. Put another way, until a firm does hire or does assign a full time manager for its export business, then the likelihood of rapid growth is small, in my opinion.

There is one exception—which really is not an exception—and that is if a firm decides to utilize an export management firm. In this case the firm is delegating responsibility to another organization for their full-time export effort.

I have talked to many successful exporters about their growth and what factors contributed to that growth. The decision to hire a full-time manager is frequently cited as the key factor. I think you can agree with this logic. For example, your full Committee on Small Business has probably been concerned about exporting since your inception, but most likely only after establishing your subcommittee did you really begin to see the results of being concerned about export.

Why don't more firms go out and hire full-time export managers? Well, frankly, the decision to have a full-time manager is a difficult decision to make and sometimes an even more difficult decision to implement. It doesn't take much of a mathematician to see that salaries and benefits of an export manager will cost a firm from $30,000 to $50,000. Adding costs of international travel, communication, administrative, and clerical support, the firm perhaps is looking at $70,000 to $100,000 in annual costs.

Given normal ranges of profitability within the export operations, a firm might require exports of as much as $1 million in order to support that full-time export manager. So, a firm in their budgeting process may have decided to add an export manager. But if the president or the owner gets tough about budgets, then it is quite easy to remove from the budget someone not yet on the payroll. So, many firms keep postponing the decision to put on a full-time export manager.

But until a firm makes and implements this decision, the growth of its export activity will in all likelihood be modest.

If one accepts the fact that exports can be substantially increased by full-time export management, then one strategy for a Nation's export expansion effort should be to stimulate business firms to assign or hire full-time export managers. To my knowledge, the export expansion efforts of the United States have never seriously addressed this strategy alternative. I think this subcommittee has an opportunity to take the lead, to be a catalyst in designing and implementing ways to stimulate business firms to hire full-time export management.

Mr. **Ireland**. Mr. Weber, do you have a question or a comment?

Mr. **Weber**. What types of products should we be thinking of in terms of American export opportunities?

Mr. **Joyner**. That is a very interesting question, a question that is basic to a Nation's export expansion activities. Since U.S. export expansion efforts can't be all things to all people, we need a thorough analysis of the resources of our country relative to exports. In 1971, I spent a year at the Commerce Department on a business/Government interchange program. I was impressed at the scope of the export targeting exercise the Commerce Department went through. They looked at U.S. industries that have export potential. Then they looked at those industries—such as the aircraft industry—where they felt the export potential didn't really need much Government's efforts. They then targeted 10 to 20 industries and designed an export expansion program for those industries. From my personal perspective, I feel building products represent an American export opportunity.

Our firm has been very, very successful. We started with two people in a basement office on Pennsylvania Avenue about 10 years ago. This year our exports will exceed $100 million. That breaks down to about one shipment every other hour of every working day of the year. Our company is very much involved in furnishing building materials, to overseas buyers, so that represents a very high potential industry.

Mr. **Weber**. Last year, one of the arguments for the tax bill was the inclusion of a relaxation of the United States taxes on American citizens working abroad. The point being made a year ago was that one of the reasons we don't export more is we simply don't have Americans overseas who would push American products and American resources. Do you share that view and has there been time enough for you to detect any change as a result of—change in the number of Americans working abroad as a result of that relaxation of U.S. income taxes?

Mr. **Joyner**. I share your feeling that it has been good to see the revision of that tax law to make it less expensive for American firms to assign Americans overseas. I can give you some examples from our business of how we have benefited from firms that have had Americans overseas. Because we are active in furnishing building materials, many of our clients are contractors, in particular non U.S. contractors. These contractors frequently are obligated to furnish specified items for the structures they are building because architects and engineers who designed the structure have been very specific in identifying products required, even specifying brand name.

We have seen that U.S. architects and engineers have been very, very successful in their international work. Therefore, many projects around the world require materials to U.S. standards or even to U.S. brands.

So, much of the work that is under construction in the Middle East—not all, but a good portion of work—actually reflects Americans doing the design and the engineering. On the other hand construction companies from the United States have not been too successful over the last decade. I think it is partly because of the cost of putting an American overseas. I think we will see a return of American general construction firms and subcontracting firms to overseas work because of this relaxation of the tax on foreign income.

Mr. WEBER. Thank you.

Mr. IRELAND. We are indebted to you for your strong comment that you need to have the manager in-house to make it go. Just having that hardnosed reality brought up, I think, is going to make our whole operation and outlook of committee activity very fruitful.

No one in that position can operate without information. In our continuing questioning of those who have come before us not only today, but also in prior hearings, could you give us your reaction to this question of the information that is available? Is it improving and is the Commerce Department moving in the right direction?

Mr. JOYNER. My view is that one man's information may be someone else's waste. Therefore, each firm or each individual seeking information generally has tight specification as to what is meaningful.

To think that the Commerce Department or any organization is going to be able to tailor its information specifically to meet the precise needs of any one company or a whole bunch of companies, is not realistic. I believe that the Commerce Department—or others who provide information of a general nature—cannot be too specific on what they furnish. Otherwise they would probably have insufficient resources to serve the many needs of U.S. business.

On the other hand, I think that there is a need and an opportunity for someone to be an interface between information or raw data and a firm which needs information. The Commerce Department, through its field offices properly plays this role. We see the chamber of commerce in many cities of the United States thinking about this role. We see universities playing this role. For example, at Georgetown University where I teach, we have a program whereby graduate students assist real companies with real international marketing research problems to obtain the information, help them analyze it and help them pose recommendations.

My feeling is that anybody in the export business in the United States is extremely fortunate. We are sitting on the greatest information bank the world has probably ever had. The real task is how do you get to that information? That is, in my opinion, the real challenge and I think you alluded to it in earlier questioning. How do you deliver the information?

Mr. IRELAND. What you are saying is if you have a full-time export manager or are using a phone full time, then you aggressively get the information from that data bank. So, that again supports your premise——

Mr. JOYNER. You have put your finger on it. If someone in a company is for exports, they are going to be aggressive in getting what information they need in order to develop their expert plan and in implementing their expert strategies.

I might point out one other thing I did as a result of my 1 year in Government. I had come from an exporting division at a very large, multi-national company. I thought I was very familiar with what the U.S. Government had to offer exporters, but from the very first day when I walked into the Commerce Department—and also as I worked with other agencies—I was just staggered by the information that was available that I didn't know about as an exporter.

I started cataloging this information, and published a guide to the information available. The guide is called "Joyner's Guide to Official Washington for Doing Business Abroad." All it does is to collect the ways that the U.S. Government can be helpful to anyone involved in export. Additionally, it also covers licensing and foreign investment. What I found is that the most valuable resource of all is not necessarily the market research report or information, in hard paper, but rather it is the experience and the brains of the Government career executive who has been assigned to particular areas of international business or international finance. If you can tap that person's brain, you are going to get a lot of information or, at least, you are going to get suggestions of other sources to tap.

Personally, as an exporter, I never worry for lack of information because I know a telephone call to almost anyone identified in my guide is going to quickly lead me to the information that I need.

Mr. IRELAND. How are we going to encourage small businesses with potential for successful exporting in getting them started? How are we going to get to those people in three easy words?

Mr. JOYNER. I don't believe there are three easy words. That is the challenge that you have, to try to put forth some ideas. It is obvious to me that not everybody belongs in export. You can harm a firm greatly by trying to get that firm into export before it is capable. There is nothing more obstinate than an exporter who has been burned in export and becomes a non-exporter. These firms are extremely difficult to get back into export. So, targeting of those firms with export potential and export capability is just a very, very critical activity.

Assuming you can target, then how do you reach out and get the targeted firm's commitment to export because that is the first criteria to export success. The owner of the business or that top executive must believe that export will be profitable.

Trade associations can be very effective in carrying the message. The Commerce Department, of course, has been carrying the message. It tries to do the best it can and in my opinion it does the best it can with the resources that it has.

We see States increasingly gearing up. We don't lack for people or organizations carrying the message of export potential. But now that you have the line in the water, how do you hook the fish? I don't know that there is any one way of catching that fish.

Mr. IRELAND. Mr. Joyner, we thank you and I look forward to seeing what that looks like.

Mr. JOYNER. All right. Thank you very much.

Mr. IRELAND. Mr. Evan Werling, vice president and treasurer of the French Oil Mill Machinery Co. in Piqua, Ohio. Welcome.

TESTIMONY OF EVAN A. WERLING, VICE PRESIDENT OF FINANCE, FRENCH OIL MILL MACHINERY CO., PIQUA, OHIO

Mr. **Werling**. Mr. Ireland, I would like to thank you very much for giving me the opportunity to be here today and I am especially appreciative to find a good old Ohio boy here also. Thank you very much for being here, Congressman.

Mr. **Ireland**. Let me confuse you further. I grew up in Cincinnati. So, carry on.

Mr. **Werling**. I can really feel at home today.

I would like to state that I am a small businessman. I am not here representing the U.S. Chamber or anyone else, even though I am on several of the committees of the U.S. Chamber of Commerce. I work on several of the export policy task force working groups. I am also a member with Mr. Rollin of the export task force, the small business group here in Washington.

Our company is a small company located in Piqua, Ohio. We design and manufacture not petroleum products, but products that are used to extract oils from soybeans, corn, cottonseed, flaxseed, any kind of an oil bearing seed anywhere in the world. We employ approximately 320 employees and our company, I think, probably has a rather an unusual history of export sales.

We have been in business for 82 years and we have probably sold and exported our products to nearly every country in the world at one time or another, including the Soviet Union and the People's Republic of China. We have been very active even recently with the People's Republic of China now that we are back on trade relations with them to try to reestablish the link that we had years ago.

About 6 months ago, a group of our people from French Oil was invited to the People's Republic of China and we found out they still had some of our old machines that were more than 40 years old, still crushing some of their soybeans and corn over there. So, we were very pleased to see the durability of our equipment.

More than 50 percent of our equipment historically has been traded on the export market. So, we are very, very much involved in the export market. Our products are considered to be the quality and technical leader in the industry throughout the world and our management, I certainly think, is topnotch and our price is competitive. We will compete with anybody, anywhere in the world, pricewise.

I think our story, though, is very similar, what I have to tell today about what is happening to our company, is very similar to what is happening to other small exporters throughout the world and it is not a very pretty story.

Last week, Mr. Draper, the chairman of the Eximbank, said that he was looking toward the future with enthusiasm. I will tell you right now our company is not looking toward the future with enthusiasm and I am not looking toward the future with enthusiasm because the policies of the Export-Import Bank of the United States are absolutely wiping us out of the export market and I mean wiping us out.

The U.S. Government for years has been talking to the small exporter encouraging him to try to establish and build an export business. We did that and now we are having the safety net totally pulled out from under us. And I will tell you we are falling and we are falling hard.

The purpose of the U.S. Export-Import Bank has two main purposes. One is to neutralize foreign-subsidized financing. The other one, in case it doesn't have the ability to neutralize the foreign-subsidized financing, is to provide the American exporter with an equal opportunity to compete in that international market. Quite frankly, when it comes to small business, those things aren't happening today. They have neither neutralized the competition nor are they supporting small business on a competitive basis.

About 2 weeks ago I attended a bankers seminar or a training session for bankers at the Export-Import Bank. I attended that because I wanted to find out exactly how the Export-Import Bank works with the regional banks that we work with. And at that session, one of the directors of the Bank said, Ev, let's face it, small business, you are in the same boat with big business. You have the same problems when it comes to financing. I will tell you I was shocked that a director of a bank would make that kind of statement about small business because we may be on the same ocean and we may be going across the Atlantic with them, but I will guarantee you one thing, we sure as hell are not in the same boat.

As a small businessman I feel like I am in a little rubber life raft with a bunch of sharks around us right now because we are not going to make it the way things are going.

When it comes to the international capital market, small business does not have access to it. Our company has worked for years, decades, to try to establish banking relationships with the large international banks in Switzerland, Paris, London, Japan, United States international banks. We get the same story. They welcome us in their door, but the volume of loans that small business puts out on the international market, is not worth their time. It is not profitable to them. And the individual loans that we come up with, which can range anywhere from $50,000 maybe up to a couple of million dollars, is not profitable business for the big international banks.

We have never been successful in financing any exports through the large international money center banks anywhere in the world. Then we come to the many, many programs the U.S. Government has. We fund the World Development Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, all the regional development banks. In addition, we have the U.S. Aid Department. We have a program called PEFCO, Private Export Funding Corporation. We have the Overseas Private Investment Corporation [OPIC]. We have all kinds of programs to help the U.S. exporter fund his international projects, but those programs aren't designed for small business. We have never been able to participate in those programs. Those are programs either requiring an equity investment in the developing country, which small business isn't equipped to do, as in the Overseas Private Investment Corporation, or it requires a larger company which has the personnel capability of spending the time in the developing country to identify the projects for which they are going to come back and ask for those funds.

Small business doesn't have those tools to participate and we are not participating. On top of that, when it comes to international financing, one of the members of a large corporation that I work with on the chamber said, well, our company isn't being hurt by the Eximbank policies nearly as bad as yours because we have a plant over in Europe and when we can't get financing from the U.S. Eximbank, well, we just shift the production over to Europe.

They just transfer the American jobs over to Europe and they take advantage then of the European favorable or subsidized financing. Small business can't do that. We have one plant in Piqua, Ohio and that is it.

And then it comes to the U.S. Eximbank. Now, basically, we are blocked out of all the other financing opportunities in the world and then it comes to our U.S. Eximbank and who is it funding. In 1981, seven companies got 67 percent of the total funding budget of the Export-Import Bank. Small business didn't get that other 33 percent. That other 33 percent went to all the other big businesses that exist, plus it had to be used for the other small businesses and the U.S. Department of Commerce puts out a magazine called Business America. In the September issue, they have an article about the small exporter in there and they estimate that there are between 20,000 and 30,000 existing small business exporters and potentially an additional 20,000 to 30,000 more, 60,000 potential small business exporters and they are getting very little, if any, support from the U.S. Eximbank.

With all the expertise that our company has and the rich history we have in export financing, we have not been able to meet one competitive financed order in the past 1½ years through our Eximbank and we have gone to them every time. We have lost every order to the Europeans where competitive financing has been an issue in the past 1½ years. We have lost every single order.

Right now, our business is down 41 percent from where it was 1½ years ago when the Eximbank started making unilateral changes in its policies to become noncompetitive and those lost orders are lost jobs in our shop.

I have attached to my formal presentation, which you gentlemen have, documentation which the Export-Import Bank also has of what our Belgians are doing, French are doing, West Germany is doing and they are all offering terms and interest rates, which are far, far lower than what our Export-Import Bank will offer and they won't compete.

And not only will they not compete on the international market, but the Europeans are now coming into our domestic market and taking it away by offering the same terms. So, we are not only losing the international market, we are losing the domestic market and nobody is doing anything about it, except doing studies. I would like to talk about some of the academic studies here in a little bit.

We haven't had any layoffs in our company for 82 years. In the total history of the company, we have never had a layoff. And we are reaching a crisis situation in our company at this point in time because you can't have 41 percent less work than you had a year ago or 1½ years ago and keep everybody on the payroll.

Last year, I think it was June 24, in the Wall Street Journal, Mr. Draper was quoted as saying—it was the July 24th issue of 1981 of the Wall Street Journal. This was just after Mr. Draper and the Eximbank had taken some unilateral action to raise our interest rates above, far above, what the Europeans are offering and he made a comment at that time and said, the Exim Chief admits that some U.S. sales will be lost, but he insists that if the credit subsidy war heats up further, the bank will be able to go down and meet the Japanese and the French. There is no question we can do more with less.

Last week, Mr. Draper made the statement before Mr. Heinz' Senate Subcommittee on the Export-Import Bank that they are meeting competition. He doesn't see any problem at all. In fact, to support that, he made the comment that 90 percent of all loan applications that come before the Eximbank are approved.

At the banking training session that I went to several weeks ago at the Eximbank, both the people from the public relations department and the policy department made the statement that they are going to have a billion dollar surplus in the Eximbank this year because the demand isn't there. The demand isn't there. So, if we listen to the people from the public relations department and if we listen to Mr. Draper, the chairman of the Bank, it appears obvious on the surface that they are doing one hell of a fine job for business in America.

Well, the demand isn't there because their policies aren't competitive. Mr. Draper is correct. They are approving 90 percent of all the loan applications that come before the Eximbank. But what he is not mentioning are the hundreds and hundreds and hundreds of loans that never come before the Eximbank because the rates aren't competitive.

A small business doesn't apply to the Eximbank under this kind of loan program for funding until it is fairly well assured it is going to get the contract. We know what our potential customer is being offered from the French and the Germans and from the Belgians and from the United Kingdom. We know what his terms are and we know what we have to meet and if we can't meet those terms, he is not going to give us the contract and he is not giving us the contract and we are losing the business. So, we are surely not going to come and apply for funds that we can't use.

That is why the demand isn't there. The need is there. It is nothing more than a fancy play on words by the Eximbank. This past year we have had over $15 million in business that we have quoted on that we have not been able to quote competitive financing and a small business by Eximbank definition is a company with under $25 million in sales and that is us and we have had $15 million in business this past year alone that we have not been able to meet competitive terms.

The business has been there this past year for our company, but we have lost it. We have lost it all and it is continuing to slide. So, when Mr. Draper made the comment that we are going to lose some business, small business is losing a hell of a lot of business and the thing that I don't understand is why the Eximbank doesn't have control or better understanding of what is going on.

I had a chance to speak with Mr. Richard McElheny of the Department of Commerce about 2 months ago and I told him the plight of small business and he said, Ev, your company sounds like the type of company that we would like to do a study on for the administration.

Well, like a lot of other Government people, I thought, well, that is the last time I will ever hear from Richard McElheny, but it wasn't. I was very pleasantly surprised. Two gentlemen, Dr. Fred Amling and Dr. Fariborz Ghador from George Washington University, came out to do a study on our small business as it relates to the international marketplace and our competitive posture.

I think they expected probably when they came out there, they expected to spend 2 to 3 days. That was their original intent. I think they probably originally felt they were going to find a company that its product life cycle had pretty well reached the end. It wasn't competitive and maybe didn't have very good quality management.

They flew in and they left the same day with the most documented case they had ever received in their study and I have been in contact with Dr. Amling concerning the comments of the chairman of the Eximbank, Mr. Draper, and their policy people where they said the demand isn't there, because they are just now, in fact—I think Dr. Amling is in Detroit as of last night trying to finish up his study. His comment to me was in good old mid-America terms, "That is a bunch of bull when they say the demand isn't there." That is exactly what it is. The demand is there, but they are not competitive.

It is really unfortunate that the Department of Commerce is the one doing the study, rather than the Export-Import Bank which has the responsibility for knowing what is going on out there among the American business community.

Yesterday, I spent most of the day at the Export-Import Bank working with the people in policy and their comment was that they had gone back through last year's records to try to do a study themselves on what has happened to the small business person in the export market and you know what? They couldn't find enough activity to make an assessment.

So now what they want me to do is come up with more small businessmen so they can do some more damn studies to find out whether or not they are competitive. All they ever want to do is study after study after study after study, but they don't want to meet the competition.

I will tell you, I am a small town farm boy from back in Indiana originally and I am getting tired of hearing the bull, as I see our people become unemployed and go out of business and companies go out of business. It is a sad commentary on the Federal Government. There are some very fine programs that the Department of Commerce has and we have used them to help establish international marketing people and we have probably one of the finest international marketing networks of any small business in the United States. But I will tell you, we are about to lose that because if a small business can't export sales, it can't pay its commissioned agents and if it can't pay its commissioned agents, it isn't going to have them any longer. And once small business loses its commissioned agents and its international marketing network, I will tell you, it is all over and we are rapidly approaching that point.

Time is running out on small business. There are a lot of small businesses that haven't been as strong as us that time has already run out on and there is no way that we are going to be able to support a viable progressive international export policy when the U.S. Eximbank becomes a political tool and an inconsistent tool in supporting exports.

As far as what it is going to take for a turnaround, I have made some recommendations in my prepared statement of what I think it is going to take. One of the most important things it is going to take is for the Eximbank to recognize that small business is, indeed, different from big business and establish a credible small business program.

In talking with the people at the Export-Import Bank yesterday I found out that as of the first of next month, they are, in fact, going to have a formalized small business program. They are taking the discount loan program, which really doesn't have any discount to it at all and they are going to be renaming that something called the Small Business Credit Facility or something of that nature, but it is going to be recognized as a small business program.

But beyond that, it has got to have adequate funding. Small business is getting nothing out of the Export-Import Bank. When I talk about adequate funding, right now they are going to take the $100 million that is proposed of a $3.8 billion budget for next year, they are going to take the whole $100 million and put that aside for small business. Hell, that is like trying to pick a fly speck out of a pepper jar. I mean, that is about how much significance it has.

On the 60,000 small businesses that are potential exporters out there, that comes out to less than $1,700 a company, less than $1,700 a company that will be available.

You can't promote exports from small business with that kind of funding and with that kind of backing. And then when small businesses see the fact that in 1981 Boeing got $2.7 billion from the Export Bank itself, it doesn't lend much credibility to small business to say that we have got a small business program, because that is not a viable small business program.

In addition to having a viable small business program, which is adequately funded, it has got to be competitive and that means ratewise. The present discount loan program is not rate competitive right now. Our Europeans, as you see in my testimony, are starting out at about anywhere from 9 to 10 percent interest. We start out at 12 percent. On top of that you add the commercial bank rate of 1 percent, which makes it 13 percent and on top of that the regional banks want the FCIA or Eximbank insurance, which adds another 4½ percent. That is why small business isn't using the program. It is totally noncompetitive when it comes to cost and rates.

Then we run into the problem of country exposure. We have a prime example of a $2½ million contract we are just now losing down in the Dominican Republic and granted the Dominican Republic is having some temporary problems, but the people at the Eximbank say, well, they will have their debt rescheduled probably by January, so come back to us in January. We will be back into the Dominican Republic. That is not the way Europe looks at it. Europe looks at the Dominican Republic and says is that country going to be a viable country for the long term. Well, they decided yes, so they are willing to finance that sale, even though the country is having short-term problems.

Our Eximbank, as soon as a country has any short-term problems, boom, they cut it off. They cut off all support and we lose the sales. So, we are not competitive during periods of short-term financial problems in developing countries and this has been a case that has lost us millions and millions of dollars of business because of short-term financial problems.

And then you run into the problem of creditworthiness and, boy, this is an issue that has plagued our small business for years. Big business, to a great degree, sells to big business or they sell to governments of the developing countries. Small business, for the most part, sells to small business on the export market. And so what happens with this great big singular pool of funds that the Eximbank has for lending. They look at credit risk, as to what they call credit risk. Well, who from a paper standpoint and a documentation standpoint is going to have the better credit risk. It is going to be big business and the reason is that they are selling to other governments. They can get government guarantees. They can get central bank guarantees. They can get all the guarantees that the Eximbank likes to see.

I can remember the last time we asked one of our small buyers to give us a Government guarantee. He didn't even know what it was and to try to get a central bank guarantee, it is ridiculous to ask small business to come up with that kind of documentation. So, when it comes to a scarce resource of funds that are available from the Eximbank, who has the best credit risk? From a banker's standpoint, it is big business. So, small business gets squeezed out, just as they have in all of the other programs.

And then we run into the problem of policy consistency. Two years ago, there was a moratorium that the Eximbank had because they didn't have sufficient top level administration to decide what the policies were going to be. And we went for several months where we couldn't tell any of our customers what was going on. There was an absolute moratorium, no financing at all. And then once they found out what they were going to do, and the only program that really is effective for small business is the discount loan program. It is a very effective tool because it is one in which we can work with the private banking sector and they can use their correspondent banks throughout the world to collect the credit data that we need to make a loan. So, it is a very effective tool if it were competitive.

But what happened to that program? Well, they found out they didn't have enough money last year, so rather than financing sales up to $5 million, they just cut it down to $2½ million, with nothing in there to pick up the gap for small business, absolutely nothing. The supplemental document that you have in my report shows $6,500,000 of lost sales to Egypt. We lost it this year.

We started negotiating clear back in 1980, but we lost it this year and the reason we lost it was because as soon as you had a contract that exceeded $2½ million, they wouldn't provide any funding. Nothing. Period. Absolutely nothing.

Now, since they are going to have $1 billion surplus, all of a sudden it is one of those things, come and get it. Come and get it. You know, we will finance anything right now. They raised it back up to $5 million. With that kind of lack of policy consistency, small business can't survive.

And then it comes to the practicality of their programs. For some reason, the Export-Import Bank almost acts as an adversary with small business. They are not there trying to help small business and define projects and programs that will assist small business. We have to fight tooth and nail to get anything done up there. So, from a practical standpoint if the policies are not there to help facilitate small business in international financing, it is not going to be functional. It is going to discourage small business rather than encourage them to come to the Eximbank.

As I said before, I am not optimistic about what is going to happen. Even though they have in name a small business program effective October 1, it is not going to be competitive, not with the rates and conditions that they have at the present time and certainly not with the funding that they have.

It is very difficult to be optimistic under those conditions. I would like to say that I am not here as an adversary of the bank. Small business needs the Eximbank and our company needs the Eximbank, but the Eximbank for some reason doesn't feel it needs small business.

All the other programs that we work on and your committee works on to help small business, those programs aren't going to be successful unless the small businessman can finance his export sale because without the export sale, just like with the small business program—the Small Business Administration has a beautiful program to help finance the operations and inventories of a small business to finance its export sale. But if you can't finance the sale, hell, you don't need the money to finance the inventories. And therein lies the problem and it is a very serious problem and time is running out for small business and something is going to have to be done pretty darn quick, because if companies like ours can't make it any more, other small businesses aren't going to make it either.

Thank you for your time.

[Mr. Werling's prepared statement, with attachment, follows:]

Prepared Statement of Evan A. Werling, Vice President of Finance, French Oil Mill Machinery Co., Piqua, Ohio

INTRODUCTION

I am Evan A. Werling from the French Oil Mill Machinery Company, which is located in Piqua, Ohio, a community of approximately 20,000 people. French Oil is a small company (employing approximately 320 people) and exports approximately 50 percent of its sales volume. Our company designs and manufactures machinery used in the extraction of edible vegetable oils (such as soybean oil, corn oil, sunflower oil, etc.), separation of water from sugar cane, dewatering of natural rubber and synthetic polymers as well as the molding of rubber into various products, from tennis balls to automotive engine gaskets.

Our company is a technological leader in its various product lines and is known for its high quality workmanship and product durability. We export to many of the developing countries of Africa and Central and South America, where there is a lack of available U.S. financing—but a dire need for our products, which are used to process raw agricultural products into edible oils and foods for the countries' inhabitants and for animal production. Without this machinery, the developing countries are forced to sell their raw agricultural products as a commodity, thus lessening their ability to be self-sufficient and viable importers of other American-made goods.

SUBJECT: SMALL BUSINESS-EXPORT FINANCING

Even though the French Oil Mill Machinery Company has an extensive background in export financing, we have not been able to finance an export sale through the Eximbank for more than a year. During the past year, French Oil has not been able to offer any financing or competitive financing for more than $15,000,000 of potential sales. All of these sales have been lost or are in the process of being lost to European competitors who are able to offer low-cost financing through their government-supported programs. These lost sales were not a result of inferior products or technology, they were not the result of excessive wages in our plant, nor were they lost because our prices were too high. They were lost because we could not obtain competitive financing!

Approximately one month ago (at the request of Richard L. McElheny of the U.S. Department of Commerce) Dr. Fred Amling and Dr. Fariborz Ghadar of George Washington University conducted a study of our company concerning the effect present federal policy is having on export sales and employment. They expected to find a small, middle-American company whose product life was reaching its end and a company that did not have the management expertise needed to compete in the international market. Instead, they found that French Oil is the technology leader in its markets and is managed by a well-educated and highly-trained professional staff. Its workers are not overpaid in relation to foreign competition and are highly productive, dedicated employees. At the conclusion of their visit, they were convinced that lack of competitive export financing is the main cause for our company's lack of business. They were surprised to find that our company is being excluded from both the export market and from the U.S. domestic market because of foreign government-subsidized export financing. Their study also placed emphasis on identifying the significant social costs (such as unemployment cost) the United States must incur because of a weak export financing program.

The attached Exhibits are examples of financing which has been, and is being offered by our foreign competition. As you will note, the latest examples of favorable foreign financing is dated June 28, 1982.

Without adequate, competitive funding from the U.S. Export-Import Bank, additional small businesses will be blocked from entering the export market and existing small business exporters will not be able to remain in the export market.

Unfortunately, many people do not recognize the obstacles small businesses face in their attempt to obtain export financing. The following is a listing of seven (7) major export financing tools. Of these seven, the Export-Import Bank is currently the only viable financing mechanism available to the small manufacturing exporter where foreign competition is involved.

1. INTERNATIONAL BANKS

The small manufacturer does not have a sufficient volume of export sales to warrant ongoing attention from large international banks. In addition, individual sales from the small exporter are usually not of sufficient size to create a profitable transaction for the large international bank. Therefore, large international banks are not a viable tool for financing exports from small U.S. manufacturing companies.

2. REGIONAL BANKS

As a general rule, regional banks do not have the capability or capital to support a strong export lending program. Small manufacturers are usually required to provide loan guarantees, collateral, and other assurances to satisfy the regional banks' export loan requirements. In many cases, these assurances and documentary requirements are so extensive that a severe burden is placed on both the exporter and the potential customer. If the exporter isn't frustrated by comprehensive demands from the regional bank, the buyer is insulted and rejects the imposition mandated by the U.S. bank. In either case, the small exporter loses the sales opportunity. In those cases where regional banks have been willing to make export loans, the rates have not been competitive with financing offered by our European competitors.

3. EXPORT TRADING COMPANIES

Legislation is in process to establish Export Trading Companies. The major Ohio Banks with which we conduct business are expressing little to no interest in financing our products through this program. Most plan to "wait and see" what their competitors do or plan to move slowly with this program. Although Export Trading Companies may offer long-term benefits, it appears they will provide limited or no additional near-term opportunity for small manufacturing exporters to finance export sales.

4. DEVELOPMENT BANKS

Numerous development banks, such as the World Bank (IBRD, IDA, IFC), Inter-American Development Bank, Asian Development Bank, African Development Bank, etc., are available to finance export sales. However, funding from these sources is primarily available to large corporations which have the manpower to develop large projects within developing countries. Small manufacturing exporters generally have access to development bank funds only when their equipment is necessary as a part of an overall development project which is being coordinated by a large international company.

5. U.S. GOVERNMENT FUNDING PROGRAMS—OTHER THAN EXIMBANK

A number of U.S. Government programs, such as PEFCO, OPIC, U.S. AID, etc., are available to finance export sales. However, these programs are directed toward large projects and/or require an equity investment from the exporter or require long-term coordination with the developing country to develop the project for which the funds will be used. In all of these cases, the small manufacturing exporter does not have the resources, capital or personnel to compete with big business for use of these funds.

6. SMALL BUSINESS ADMINISTRATION AND DEPARTMENT OF COMMERCE PROGRAMS

The Small Business Administration offers various programs to assist the small exporter. Recently, a new program was developed to finance operating needs and inventories used to fill export sales. Although this program was initiated with good intent, like many other programs it fails to recognize that, unless the small manufacturing exporter can finance a sale, there will be no need to finance inventories to support the export sale.

The Department of Commerce has an excellent program to assist small U.S. exporters in finding foreign selling agents. However, foreign selling agents are of little value when the small business can't finance its export sales. We have many good selling agents located throughout the world; however, their expertise and good connections cannot win against two to three percent lower interest rates being offered by our foreign competitors.

7. EXPORT-IMPORT BANK

The Export-Import Bank presently offers the only viable opportunity for the small manufacturing exporter to obtain competitive financing for export sales. Unfortunately, even at the Eximbank the small company must take a back seat. In recent years, the Export-Import Bank has been used predominantly to finance the export sales of a few large international companies. When funds have been available during the past two years, the Eximbank interest rates and commitment fees were not competitive compared to financing offered by our foreign competitors. The small manufacturing exporter is being squeezed out of the export market—with no viable options through which export sales can be financed.

Many large international companies are not facing the severe financing problems which confront small business. In addition to the many private and U.S. government funding programs available to big business, many large international companies can take advantage of foreign government export financing programs which are available in other countries where they have plants.

MIXED CREDITS

A concerted effort is being made to allow financing of U.S. exports through mixed credits. Mixed credits are basically defined as a mixture of Eximbank financing together with funds available through the U.S. A.I.D. program or other government programs which, when combined, provide a blended financing rate comparable to mixed financing rates available from foreign competitors. If and when mixed credits are made available to the U.S. exporter, an even larger portion of Eximbank funds will be absorbed by big business, since they are the predominant benefactors of funding available through U.S. A.I.D. and other government-subsidized programs. This will be another case of the big companies getting bigger at the expense of small business.

PRESENT SITUATION

Although much has been said about lowering the U.S. trade deficit, reducing unemployment and promoting new jobs through expansion of export sales, little has been done to develop new programs or modify existing programs to assist small business in financing export sales to accomplish these goals. These problems are exacerbated by the United States electoral process, which allows the policies of the Export-Import Bank to be adjusted to fit the political and/or budget preferences of new administrations. This is a primary reason the United States has been unable to develop consistent export policy which will allow the private sector to compete on an equal basis with its foreign competition. Unless a competitive and consistent government export environment is established, private enterprise cannot afford to commit its resources to promote new jobs through expansion of exports.

Current policies of the U.S. Export-Import Bank are not helping to lower the U.S. trade deficit or reduce unemployment, nor are these policies promoting new jobs through expansion of export sales. Current policies and actions do not meet the Bank's authorized objective of fostering "expansion of exports of manufactured goods, agricultural products, and other goods and services, thereby contributing to the promotion and maintenance of high levels of employment and real income and to the increased development of the productive resources of the United States." During the past several years, the Bank has consistently failed to provide "guarantees, insurance, and extensions of credit at rates and on terms and other conditions which are competitive with the government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with United States exporters."[1]

Current policies and actions by the U.S. Export-Import Bank are not promoting domestic employment. Present policies are resulting in the export of jobs of United States citizens. This policy is having a very serious impact on large and small business and the people they employ. During the past 2 years our bookings for export sales have dropped significantly because of inadequate or non-competitive financing. Bookings are so low, it appears fiscal 1982-83 sales may approximate only 50 percent of sales incurred in fiscal 1979-80 when competitively priced export financing was available. There is a significant market for our products; however, due to lack of export financing, we have not been able to obtain these orders for our work force.

It has taken our company decades to develop a reliable and educated network of selling agents throughout the world. These sales people will not stay with our company unless they are compensated. Once the international sales force begins to disintegrate, the small businessman will have lost his ability to sell in the international market.

Our company is presently facing one of the most serious economic conditions in its history—much of which is a result of subsidized financing made available to foreign exporters and the unwillingness of the U.S. Export-Import Bank to provide competitive financing—as mandated in its charter. For our business and for other small businesses, this condition cannot continue—if we are to remain viable in the international marketplace. If our Export-Import Bank is allowed to maintain its underfunded and non-competitive financing position, more U.S. exporters will go out of business or move their operations overseas to gain more favorable export financing. In either case, more jobs will be exported to our foreign competitors and more unemployment will be generated in the United States. As this happens, foreign governments will no longer need to offer subsidized financing to their exporters—because they will no longer have competition from U.S. manufacturers whose employees will be drawing welfare checks rather than employment checks.

RECOMMENDATIONS

A strong and adequately-funded Eximbank must be available if the United States is to develop and maintain a consistent and competitive export policy.

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[1] The Export-Import Bank Act of 1945 (as amended to date); Sec. (2)(b)(1)(A).

The Export-Import Bank of the United States must be made less political. This can be accomplished by staggering the expiration of the term of office for each Eximbank director, with only the Chairman being appointed during the first year of a new administration.

Funding for the Eximbank should not be treated as foreign aid in the Congressional budget. With the exception of a few years, the Eximbank has been a profitable operation and has returned substantial dollars to the U.S. Treasury. The Eximbank is an investment in the future of the United States and is one of the best programs ever established by Congress for the promotion of job expansion through the private sector.

The Eximbank should offer competitive financing under the Discount Loan Program; this is not happening today. It should also provide financing in all countries where the U.S. exporter faces a competitive, government-supported financing situation; this is also not happening today.

The Discount Loan Program is a very effective tool through which small businesses can finance export sales, since it allows small business to utilize the private banking system for coordinating the collection of documents necessary to complete the credit and financing process. However, we recommend the Discount Loan Program be renamed as the Small Business Export Program or some other designation to distinguish it as a program for small business. The present name of "Discount Loan" is a misnomer, since funding provided through this program is actually at a higher rate than funding provided through the Direct Loan Program once the commercial bank rate and insurance guarantees required by the local or regional banks are added.

As mentioned earlier, the Export-Import Bank's Discount Loan Program is the only viable funding program presently available to support small business exports. Reasonable funding (a minimum of $1 billion) should be set aside specifically for small business export financing. Otherwise, existing and potential small exporters will not have a viable opportunity to finance export sales. It would also help silence many of the critics who claim the bank is dominated by a few large companies and prevent a few large corporations from further reducing export funds available to small business.

Unfavorable policy changes affecting the Export-Import Bank should not be applied retroactively to contracts under negotiation by U.S. exporters. Retroactive application of unfavorable policy changes can be very detrimental to a small exporter, since it can place him in financial jeopardy—without prior knowledge on his part.

SUMMARY

Small businessmen have a strong desire to compete and succeed on the basis of their own ability. By nature, we don't want subsidies from our Federal Government, nor from any other source. However, we must face reality—foreign governments are unfairly assisting their corporations in maintaining and/or increasing their employment at the expense of the American working man. Small businesses, such as ours, cannot compete with unfair foreign government practices. Past efforts to stop foreign subsidized financing through government negotiations have not been successful! Therefore, the United States government must intervene to protect the jobs of American workers. Otherwise, more companies will go out of business, the unemployment rolls of the United States will continue to increase, and our balance of payments will continue to deteriorate. We cannot allow foreign governments to continue their destruction of the manufacturing backbone on which the United States was built. It's time for a consistent Eximbank policy for the creation and preservation of jobs—rather than allowing the export of existing jobs!

EXHIBITS—INDEX

I. This exhibit represents a quotation made by Speichim, our French licensee, and financed by COFACE, the French equivalent of the U.S. Eximbank. It contains the following terms and conditions which are not available to the U.S. manufacturer:

A. The U.S. Eximbank will not presently support financing to the Dominican Republic, whereas COFACE will support financing.

B. The interest rate offered by COFACE is 10 percent per year—whereas, the U.S. Eximbank rate under the Discount Loan Program is approximately 12 percent plus an additional 1 percent for the U.S. commercial bank (or 13 percent).

C. Credit terms extend over seven (7) years; the U.S. Eximbank, for a comparable financial arrangement, offers financing for only five (5) years.

D. "The duration of the contract may be extended with the approval of the French Administration to meet the most favorable proven bid on the part of the competition." Although the charter of the U.S. Eximbank is similarly stated, the U.S. Eximbank has not been willing to meet the most favorable proven bid from the U.S. exporter's competition.

It should be noted that, although President Reagan negotiated an agreement with our European competitors at the conference in Versailles, this offer was extended to our prospective customer on June 28, 1982—following the agreement executed by President Reagan.

II. This financing proposal (in excess of $5 million) was also presented to a company in the Dominican Republic by Simon-Rosedowns Ltd. of England. The quotation was made February 2, 1982 and included the following financing terms which were not available from our U.S. Eximbank:

A. England was willing to finance this sale to the Dominican Republic; the U.S. Eximbank was not willing to finance the order.

B. Our competitor from England offered interest at 10 percent per annum on the outstanding balance.

III. This exhibit is a proposal submitted by DeSmet, from Belgium. The following terms and conditions were offered by DeSmet, but were not available to French Oil from the U.S. Export-Import Bank:

A. The Belgium government was willing to finance this contract in the Dominican Republic; the U.S. Eximbank was not willing to commit to financing.

B. The Belgian financing was offered at a guaranteed interest rate of 10 percent on the unpaid balance.

IV. This exhibit represents a quote made by a company called De Wecker from Luxembourg. A copy of both the untranslated and translated version is attached. The 10-percent fixed rate financing offered is far below financial rates available from our Eximbank. At the time of this quote, the U.S. prime rate was approximately 15¾ percent.

V. This contract proposal represents a Belgian proposal for favorable financing to a U.S. company located in Weston, Ohio. The favorable financing terms offered were at the rate of 9.25 percent per annum.

This proposal did not result in a contract being signed; however, it is representative of the favorable financial terms being offered by our European competitors to our domestic customers.

SUMMARY

It is very difficult for a small company to obtain documentation concerning competitive financing—especially prior to the customer signing the order. However, we believe the attached exhibits represent the "real world" of export financing and accurately document that the U.S. Eximbank is not providing competitive programs to neutralize foreign government financing subsidies—nor is it fulfilling its responsibility to promote growth in our country's employment.

EXHIBIT I
Page 1 of 8

B U E

Banque de Union Europeanne
4, rue Gaillon
B.P. 89
75060 PARIS 02

June 28, 1982

AGRO MORA INDUSTRIAL C.A.
Apartado 1538
SANTO DOMINGO (Dominican Republic)

Dept: International

RECEIVED
AUG 30 1982

Att : Mr. Gregorio MORA, President

Gentlemen:

We are writing in regard to the competetive bidding set up by your organization on which SPEICHIM has prepared a proposal in accordance with requirements.

This bid concerns furnishing and start-up of a plant for producing oil from soybean having a processing capacity of 300 tons of soy per 24 hour day, for a total as regard the French portion of FF 35,000,000.oo.

Financing can be set up, subject to approval by the French authorities having jurisdiction in the form of a purchaser's credit guaranteed by the COMPAGNIE FRANÇAISE D'ASSURANCE POUR LE COMMERCE EXTERIEUR (COFACE) ("French Foreign Trade Insurance Company") for the part of French origin and forther, by means of a supplemental financial credit.

1) PURCHASER'S CREDIT

Amount: 85% of the French portion or FF 29,500,000.00 This amount may be increase in proportion to any increase in the French share. This credit will be made operative by a credit agreement to be signed between AGRO MORA INDUSTRIAL C.A. acting as borrower and our Bank.

This credit is to be used in accordance with the progressive payments defined in the commercial contract.

Currency in which payment is to be made; French Francs.

Duration: Seven years from the date the trade contract is signed including a grace period of 2 years which covers according to our information the construction period of the plant.

Reimbursement: (repayment) in 10 six-monthly periods, equal and successive, the first falling due 6 months after provisional delivery of the plant and at the latest, after a deadline to be set by French authorities in keeping with the terms of the commercial contract.

The duration of the credit may be extended with the approval of the French administration to meet the most favorable proven bid on the part of the competition.

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EXHIBIT I
Page 2 of 8

Interest: The interest rate shall be the rate in effect on the date the commercial contract is signed, current terms being 10% per year payable in six-monthly installments, when due during the period the credit is being used and repaid. This rate shall remain fixed during the life of the credit. Principal and interest payments shall be made operative by means of promissory notes.

Credit insurance premiums: The premiums due COFACE are to be paid by the borrower prior to each draw of credit.

However, these premiums may, should the borrower so desire, be paid either by an increase in the interest rate or by an increase in the principal amount. Currently, this increase would be .6% per year if the guarantee bond of the Ministry of Finance of the Dominican Republic or of a first line bank at the choice of COFACE.

The Percentage increase in the principal, in the second case is to be spelled out in the credit agreement in keeping with the final terms of the commercial agreement.

Commissions:

- A commission for handling is to be charged on the total amount of the credit at the flat rate of .5%. This commission is to be payable in a lump sum at the time sales agreement is signed.
- A commitment commission is to be charged at the rate of .5% per year payable every six months and in advance on the total unused balance of the credit running from the date agreement is signed (credit agreement) (each six months period begun is equivalent to a full semester.
- Fiscal rate: Exempt from all taxes and duties, either present or future in the Dominican Republic.
- Guarantee: A guarantee by the Ministry of Finance of the Dominican Republic shall be required.

2) FINANCIAL CREDIT

Further, we should like to confirm that the BANQUE DE L'UNION EUROPEENNE is ready to set up a financial credit having the following terms,

Total amount: The amount shall be equivalent to the installment payments or 15% of the repatriatable amount. Today the amount comes to FF 5,500,000

Borrower; AGRO MORA INDUSTRIAL C.A.

Currency: U.S. dollars

When usable: To be determined by contractual provisions

Duration; 5 years from date financial contract signed

Repayment: in equal and successive six-monthly installments, the first falling due

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EXHIBIT I
Page 3 of 8

30 months after financial contract is signed.

Interest: Eurodollar at six months on London market plus 1-3/4% per year

Handling commission: Flat US$ 10,000 payable when financial contract is signed

Commitment commission, .5% per year on unused balance of credit, payable in installments every six months, when period ends.

Expenses: Aall legal expenses and others are the responsability of the borrower.

Guarantee: The same guarantees as those required for the signing of the credit agreement in French Francs shall be required to the satisfaction of the BANQUE DE L' L'UNION EUROPEENNE.

Fiscal Standing: exempt from all taxes and duties/ whether present or future in the Dominican Republic, which in any event would be the borrower's expense.

Validity period of our offer: To September 30, 1982

We hope we have offered you an overall financial plan adapted to the needs of your project and we are at your service to furnish any further information you may need.

There being nothing further we remain

cordially

BANQUE DE L'UNION EUROPEENNE

Didier LAVAL CHARVET
Executive

Henri de MONTLEBERT
Asst. Mgr.

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BUE

BANQUE DE L'UNION EUROPEENNE

EXHIBIT I
Page 4 of 8

Paris le 28 de Junio de 1982

direction
des Affaires Internationales
DL/RM

AGRO MORA INDUSTRIAL C.A.
Apartado 1538

SANTO DOMINGO (República Dominicana)

A la atención del Señor Gregorio MORA
Presidente

Muy Señores Nuestros,

Nos referimos a la licitación organizada por su honorable Institución y por la cual SPEICHIM ha preparado una proposición conforme a la requerida.

Dicha oferta se refiere al suministro y a la puesta en marcha de una planta de producción de aceite a partir de soja y de una capacidad de tratamiento de 300 toneladas de soja por 24 horas, por un importe de parte francesa de aproximadamente FF. 35.000.000.-.

Un financiamiento podrá ser organizado, bajo reserva del acuerdo de las Autoridades Francesas competentes, bajo la forma de un crédito comprador garantizado por la COMPAGNIE FRANCAISE D'ASSURANCE POUR LE COMMERCE EXTERIEUR (COFACE), por la parte de orígen francesa y por otro lado, por medio de un crédito financiero complementario.

1/. CREDITO COMPRADOR

Importe : 85 % de la parte francesa o sea FF. 29.500.000.-.
Este importe podrá ser aumentado en proporción con un crecimiento eventual de la parte francesa. Dicho crédito será materializado por un convenio de crédito firmado entre AGRO MORA INDUSTRIAL C.A., actuando como Prestatario y nuestro Banco.

Dicho crédito será utilizado en conformidad con los pagos progresivos definidos en el contrato comercial.

Moneda de pago : Francos Franceses.

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Duracion : 7 años a partir de la firma del contrato comercial, incluyendo un período de gracia de 2 años, que corresponde, según nuestras informaciones, al período de construcción de la planta.

Reembolso : en 10 semestralidades de principal iguales y sucesivas, la primera venciendo 6 meses despues de la recepción provisional de la planta y, a lo más tardar, después de una fecha límite definida por las Autoridades Francesas, en relación con las características del contrato comercial.

La duración del crédito podría ser mejorada con la aprobación de la Administración Francesa, en función de una oferta más favorable probada de parte de la competencia.

Interés : el tipo de interés será el tipo en vigor a la fecha de la firma del contrato comercial ; en las condiciones actuales es de 10 % por año, pagadero semestralmente y a término vencido, durante el período de utilización y de reembolso del crédito. Esta tasa quedará fija durante el período del crédito. Los vencimientos de principal y de interés seran materializados por pagarés.

Primas de seguro-crédito : las primas debidas a la COFACE deberán de ser pagadas por el Prestatario previamente a cada utilización del crédito.

Sin embargo, dichas primas podrán, si así lo deseara el Prestatario, ser pagadas o sea por un aumento del tipo de interés o sea por un aumento del principal. Actualmente, dicho aumento sería de 0,60 % al año, si es otorgada la garantía del Ministerio de Finanzas de la República Dominicana o de un banco de primer orden a conveniencia del COFACE.

El porcentaje de aumento del principal, en el segundo caso, se definirá en el convenio de crédito, en función de las características definitivas del contrato comercial.

Comisiones :

- Una comisión de gestión será cobrada sobre el importe total del crédito, a la tasa del 0,50 % flat. Dicha comisión será pagadera en un solo monto, en el momento de la firma del convenio de crédito.
- Una comisión de compromiso será cobrada a la tasa del 0,50 % por año, pagadera semestralmente y por anticipado sobre el monto no utilizado del crédito, a partir de la firma del convenio de crédito (cada semestre empezado equivale a un semestre entero.

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EXHIBIT I
Page 6 of 8

Duracion : 7 años a partir de la firma del contrato comercial, incluyendo un período de gracia de 2 años, que corresponde, según nuestras informaciones, al período de construcción de la planta.

Reembolso : en 10 semestralidades de principal iguales y sucesivas, la primera venciendo 6 meses despues de la recepción provisional de la planta y, a lo más tardar, después de una fecha límite definida por las Autoridades Francesas, en relación con las características del contrato comercial.

La duración del crédito podría ser mejorada con la aprobación de la Administración Francesa, en función de una oferta más favorable probada de parte de la competencia.

Interés : el tipo de interés será el tipo en vigor a la fecha de la firma del contrato comercial ; en las condiciones actuales es de 10 % por año, pagadero semestralmente y a término vencido, durante el período de utilización y de reembolso del crédito. Esta tasa quedará fija durante el período del crédito. Los vencimientos de principal y de interés seran materializados por pagarés.

Primas de seguro-crédito : las primas debidas a la COFACE deberán de ser pagadas por el Prestatario previamente a cada utilización del crédito.

Sin embargo, dichas primas podrán, si así lo deseara el Prestatario, ser pagadas o sea por un aumento del tipo de interés o sea por un aumento del principal. Actualmente, dicho aumento sería de 0,60 % al año, si es otorgada la garantía del Ministerio de Finanzas de la República Dominicana o de un banco de primer orden a conveniencia del COFACE.

El porcentaje de aumento del principal, en el segundo caso, se definirá en el convenio de crédito, en función de las características definitivas del contrato comercial.

Comisiones :

- Una comisión de gestión será cobrada sobre el importe total del crédito, a la tasa del 0,50 % flat. Dicha comisión será pagadera en un solo monto, en el momento de la firma del convenio de crédito.
- Una comisión de compromiso será cobrada a la tasa del 0,50 % por año, pagadera semestralmente y por anticipado sobre el monto no utilizado del crédito, a partir de la firma del convenio de crédito (cada semestre empezado equivale a un semestre entero.

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EXHIBIT I
Page 7 of 8

Régimen fiscal : exento de todos impuestos y tasas presentes o futuros en la Republica Dominicana.

Garantía : la garantía del Ministerio de Finanzas de la República Dominicana será requerida.

2/. CREDITO FINANCIERO

Por otra parte, quisieramos confirmarles que el BANQUE DE L'UNION EUROPEENNE queda listo para organizar un crédito financiero cuyas condiciones son las siguientes :

Importe : el importe será equivalente a los pagos a cuenta o sea los 15 % de la parte repatriable. Hoy en día, el importe alcanza FF.5.500000.-.

Prestatario : AGRO MORA INDUSTRIAL C.A.

Moneda : Dólares de los Estados Unidos.

Utilización : a determinar con las disposiciones contractuales.

Duración : 5 años de la firma del contrato financiero.

Reembolso : por cuotas semestrales iguales y sucesivas, la primera semestralidad venciendo 30 meses después de la firma del contrato financiero.

Interes : Euro-Dólar a 6 meses en el mercado de Londres, más 1 3/4 % por año.

Comisión de gestión : US$ 10.000 flat pagadera a la firma del contrato financiero.

Comisión de compromiso : 0,50 % por año sobre el saldo no utilizado del crédito, pagadera por cuotas semestrales, a plazo vencido.

Gastos : todos los gastos jurídicos y otros están a cargo del Prestatario.

Garantía : las mismas garantías que las requeridas para el convenio de crédito en Francos Franceses seran exigidas, a satisfacción del BANQUE DE L'UNION EUROPEENNE.

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EXHIBIT I
Page 3 of 8

Régimen fiscal : exentos de todos impuestos y tasas presentes o futuros en la República Dominicana, que de todo modo, correrán a cargo del Prestatario.

Validez de nuestra oferta : hasta el 30 de Septiembre de 1982.

Esperamos haberles ofrecido un esquema de financiación global adaptado a las necesidades de su proyecto y quedamos a su entera disposición para cualquier información que Uds pudieran necesitar.

Sin otro particular, les saludamos muy atentamente.

BANQUE DE L'UNION EUROPEENNE

Didier LAVAL-CHARVET
Fondé de Pouvoirs

Henri de MONTLEBERT
Sous Directeur

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EXHIBIT II
Page 1 of 4

Granja Mora,
Dominican Republic.

LE/VL/3-3107

22nd February, 1982

BUDGET

OF

ONE SIMON-ROSEDOWNS VEGETABLE OILSEED AND OIL PROCESSING INSTALLATION FOR 3[illegible]0 TONNES PER 24 HOURS OF WHOLE SOYA BEANS COMPRISING SOYA PREPARATION, SOLVENT EXTRACTION AND MEAL AFTER TREATMENT AND INCLUDING COMPLETE REFINING FOR 60 TONNES PER 24 HOURS OF CRUDE SOYA OIL

Comprising:

Section 1	U.S. Dollars
Soya Bean Pre-Treatment Plant	
Process notes sheets 3S and 4S. As per attached specification sheets 5S and 6S, items 1.01 - 1.12 inclusive.	575,000
Section 2	
Solvent Extraction Plant and Meal Dry and Cooling	
Process notes sheets 7S - 9S. As per attached specification sheets 10S - 17S, items 2.01 - 2.36 inclusive.	1,355,000
Section 3	
Extracted Meal Grinding, Screening and Bagging	
As per attached specification sheet 18S, items 3.01 - 3.07 inclusive.	205,000
Section 4	
Hulls Toasting, Grinding and Bagging	
As per attached specification sheet 19S, items 4.01 - [illegible] inclusive.	238,000

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Crango Mora,
Dominican Republic.

Section 5	
Oil Handling	
As per attached specification sheet 20S, items 5.01 - 5.03 inclusive.	43,000
Section 6	
Continuous Vegetable Oil Degumming Unit	
As per attached specification sheet 21S, items 6.01 - 6.11 inclusive.	165,000
Section 7	
Continuous Neutralising Plant	
As per attached specification sheets 22S - 24S, items 7.01 - 7.23 inclusive.	351,000
Section 8	
Rosedowns Continuous Bleaching Unit	
Process notes sheet 25S. As per attached specification sheets 26S - 28S, items 8.01 - 8.21 inclusive.	174,000
Section 9	
Rosedowns Econoflow Deodoriser	
Process notes sheet 29S. As per attached specification sheets 30S - 33S, items 9.01 - 9.17 inclusive.	472,000
Section 10	
Vegetable Oil Storage	
As per attached specification sheet 34S, items 10.01 - 10.04 inclusive.	198,000
Section 11	
Steam Raising Equipment	
As per attached specification sheets 35S and 36S, items 11.01 - 11.12 inclusive.	196,000

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EXHIBIT II
Page 3 of 4

Granga Mora,
Dominican Republic.

30

Section 12	
Water Cooling Equipment	
As per attached specification sheet 37S, items 12.01 - 12.06 inclusive.	152,000
Section 13	
Power Generation and Distribution	
As per attached specification sheet 38S, items 13.01 and 13.02.	915,000
TOTAL F.O.B.	5,039,000
	U.S. Dollar

Section 14	
Supervisory Erection and Commissioning Services	
Based on three Supervisory Erection Engineers for a period of eight months and four Supervisory Commissioning Engineers for a period of two months. In the event that the services of these engineers exceeds these periods, then additional periods shall be at terms and prices agreed. Terms and conditions as SRL. 1006.	USD 184,000

U.S. Dollar prices quoted are calculated on todays rate of 1.63 U.S. Dollars equals £1 Pound Sterling and if final contract is required to be in U.S. Dollars then the dollar rate used will be that ruling at the date of effective contract.

Packed for shipment and delivered F.O.B. U.K./N. European Port of Seller's choice.

Subject to the attached conditions of contract RE/72.

This quotation is valid for 60 days.

The quoted prices are subject to escalation in accordance with the attached condition SRL. 1553.

Order must give details of any necessary authority to import and pay for the goods, stating the period of validity of such authority.

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EXHIBIT II
Page 4 of 4

Granja Mora,
Dominican Republic.

Standard Cash Terms of Payment

25% of the value payable as deposit with order.

75% of the value against shipping documents by Irrevocable Letter of Credit confirmed by a London Bank.

ALTERNATIVE

Special Export Terms of Payment

10% of the value with order.

10% of the value payable against shipping documents.

80% of the value payable in ten equal six-monthly instalments over five years with the first bill due six months after commissioning or 30 months from contract date, whichever is the sooner.

Interest at 10% per annum on the amount outstanding included in and payable with each instalment. Calculated from date of shipment.

Bank charges to your account.

Subject to the approval of the British and your own Authorities.

Or other such terms as may be mutually negotiated.

Delivery

7/10 months from receipt of official order with deposit and finalisation of all technical and commercial details to enable us to proceed.

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EXHIBIT III
Page 1 of 3

DE SMET
U.S.A.

Decwmber 10, 1981

GRANJA MORA C.por A.
A.P. 1538
SANTO DOMINGO, DOMINICAN REPUBLIC

Attn: Mr. Gregorio Mora
President

Gentlemen:

DSUSA Estimate 81.875.092 A
De Smet Soybean Processing Plant Project

Last December 2 I had occasion to comment on our estimate in English dated November 30 with you.

In reference to this matter I am happy to furnish you this complete estimate which has the following features:

- It is written entirely in Spanish
- It includes everything quoted in the Nº 81.875.092 plus the supplemental equipment and options needed to constitute a partial "Key in hand" project as per assembly drawing Nº DSUSA 414.

The option of processing 300 metric tons instead of 300 short tons of soybean is included as well as equipment for degumming oil.

By partial "Key in hand" we mean that the De Smet company will do the detail engineering and will furnish the metal buildings, processing equipment and auxiliary gear.

DeSmet will also make available to Granja Mora qualified engineers to supervise construction and start-up of equipment.

Granja Mora will undertake to furnish erection personnel and the civil engineering contractor.

The project breakdown includes a certain amount of auxiliary equipment. This list is not by any means final and we do not pretend that it is.

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EXHIBIT III
Page 2 of 3

As a matter of fact only the detail engineering study which is to be carried out will enable us to arrive at more exact information on supplemental materials, expecially electric connections, interconnecting piping between buildings, etc. . very difficult to evaluate concretely at this stage in the study.

You will note the details in which we have described the detail engineering portion of the project.

We feel that this method of operation is the only one which will permit a maximum saving of local expenses and we are confident that the quality of enigneering furnished will be in line with the execution image of De Smet personnel.

For a better understanding of the total cost of the project we are attaching a price which which itemizes what had been quoted previously and wh what has been added for this project.

On the basis of this total and considering all options the overall price of the project would amount to the sum of:

$ 3,659,6000 dollars US Cy.

or its equivalent in BELGIAN FRANCS: 139,067,080.

This price is figured on a CIF Santo Domingo basis.

This price will remain firm of execution and decision up to January 15, 1982 and subject to execution of a contract between Granja Mora and De Smet USA Corporation

Delivery Schedule:

We estimate thatthe equipment and engineering specified in this estimate can be delivered CIF Santo Domingo within a time period of approximately 10 months.

Payment Terms:

Deferred payment terms can be provided for 80% of the total due on the project.

In the latter case the contract would be set up on the basis of Belgian francs and subject to the following terms:

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EXHIBIT III
Page 3 of 3

10% in advance on signing contract

10% against shipping documents payable on first presentation through and divisible and irrevocable letter of credit.

80% Calculated in its equivalent in Belgian Francs in 10 six-month promissory notes, the first falling due six months after the main shipping date. These promissory notes cover capital plus interest figured at the rate of 10% on unpaid balances.

These exceptional payment terms may be"guaranteed" by means of payment of 1/8% of the amount being financed at the time negotiations begin.

In this way the interest rate is made firm and may not be changed later. The amount paid is considered a part of the advance payment when the contract goes into effect or is reimbursed in the event no agreement is reached.

The promissory notes in Belgian Francs will have to be covered by a bond issued by a bank or a first line insurance company.

This proposal with the information it contains is submitted confidentially to Granja Mora for its exclusive use and as part of the services of De Smet USA and may not be communicated to third parties without the prior written authorization of DSUSA.

We thank you for the opportunity you have given us of submitting this estimate for your consideration and we hope to have the opportunity of working with you.

sincerely

DE SMET U.S.A. CORPORATION

Guy L. Posschelle
Vice President

ATTACHMENTS

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EXHIBIT IV
Page 1 of 1

USINE DE WECKER
S. à r. l
SIEGE SOCIAL: WECKER (GRAND-DUCHE DE LUXEMBOURG)

FONDERIE ET ATELIER DE
CONSTRUCTION DE MACHINES

USINE DE WECKER S. à r. l. — L - [illegible] WECKER

INMORIEC
HACIENDA "EL VERGEL"
Pedro Carbo No. 505 Piso 16
GUAYAQUIL, ECUADOR

VOTRE REF.:

NOTRE REF.: 82.01.20.371 A.

WECKER, January 14th, 1982

August 2, 1982

Translation via phone Mr. Smith to Ulene Shively:

10% With order
5% Against presentation of shipping documents
85% Financed over 5 years, payable in 10 six monthly installments.
The first falling due six months after shipment. Annual interest
10% fixed throughout the period of the transaction.

The financial costs of obtaining this credit with Luxemburge Institution is approximately 5% to be confirmed by the government of Luxemburge, who will have to approve all the other aspects of this credit, such as, the security, insurance and other matters.

CONDICIONES FINANCIERAS

10% con el pedido

5% Contra la presentación de los documentos de embarque.

85% Financiado a 5 años, pagadero en 10 cuotas semestrales, venciendo la primera 6 meses después del embarque. Interés anual del 10% fijo a lo largo de la operación.

El costo financiero de obtener estas condiciones con los Institutos de crédito de Luxemburgo, es de aproximadamente 5%, a ser confirmado por el gobierno de Luxemburgo quien también deberá aprobar los demás aspectos de este crédito, como son el aval, seguro y otros.

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EXHIBIT V
Page 1 of 2

CONTRACT

THE PRESENT CONTRACT ENTERED INTO AS OF THE ______ DAY OF __________ 1981.

BY AND BETWEEN: Weston Sunflower Corporation

with registered address at Box 343
Weston, Ohio 43569

hereafter called the OWNER.

REPRESENTED BY: Eldon Moomaw, President

AND: EXTRACTION DE SMET S.A.
265 Prins Boudewijnlaan
B-2520 Edegem-Antwerp
Belgium

hereafter called the SELLER.

REPRESENTED BY: Guy L. Posschelle

EXHIBIT V
Page 2 of 2

ARTICLE 3: PAYMENT CONDITIONS

The price mentioned in Section 2.1 will have to be paid by the OWNER to the SELLER in the following manner:

3.1 1330000 10%, i.e. U.S. $1,329,856 immediately after contract signature, to be transferred by cable to the SELLER's Bank Account 220/0032004/30 at Societe General de Banque, Antwerp, Belgium. This down payment is considered as a non-returnable deposit, which will be retained by the SELLER as a contribution to the expenses inherent in the CONTRACT in case of its cancellation for reasons other than the SELLER's failure or fault.

3.2 5%, i.e. U.S. $664,928 payable against shipping documents at first presentation, on the basis of an irrevocable and divisible Letter of Credit, issued by a first class U.S.A. Bank and confirmed by a Belgian Bank; the Letter of Credit shall be opened by the OWNER and remitted to the SELLER no more than one month after contract signature and should be valid for 12 months; it should permit that the equipment is of European and/or American origin and allow partial shipment from any port.

3.3 85%, i.e. U.S. $11,303,776 through ten semiannual installments, the first installment maturing 30 months after receipt of the down payment (Section 3.1), the second draft will fall due six months from the maturity of the first draft and so on in such a way that the tenth draft will fall due 84 months after receipt of the down payment (Section 3.1). These installments cover capital plus interest. The interest is computed at the rate of 9.25% annually starting 12 months after contract signature. The drafts in U.S. dollars are payable in Belgium at maturity date. These drafts will be issued by the SELLER upon contract signature, accepted by the OWNER and sent to the SELLER within 60 days from contract signature.

2 1/2 yrs grace
5 yrs to pay
9.25% [illegible]

3.4 The ten Bills of Exchange will be guaranteed by an irrevocable Letter of Credit to be opened by a first class U.S. Bank ~~and sent~~ to the SELLER with the drafts accepted by the OWNER 60 days after receipt of down payment (Section 3.1).

3.5 The financial terms and conditions of the CONTRACT are subject to final approval of the Belgian Finance Authorities. Upon the signing of this Agreement, SELLER shall exert best efforts to obtain such approval.

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Subcommittee on Export Opportunities and Special Small Business Problems
U.S. House of Representatives Committee on Small Business

Testimony Concerning the Export-Import Bank of the United States

SUBJECT: Supplemental Information Presented on September 21, 1982
Concerning the Testimony of Evan A. Werling, Vice President - Finance, The French Oil Mill Machinery Company

The attachment is a $6,500,000.00 contract lost to our Belgian competitor, Desmet. As can be noted from the cover letter addressed to the U.S. Eximbank, French Oil underbid the Belgian competitor; however, interest rates available from Belgium were very low -- thus making financing from the United States totally non-competitive. In this situation, as well as others, our company has not been able to obtain competitive financing from the U.S. Export-Import Bank.

E.A. Werling
E. A. Werling

EAW/dlm

Attachment

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Contract awarded to DeSmet during fiscal 1982
Contract Value $6,500,000 USD.

April 7, 1981

Mr. Don Stengel
Export-Import Bank
811 Vermont Avenue, N. W.
Washington, D. C. 20571

Dear Mr. Stengel:

We attach herewith a copy of financing offered to General Organization For Industrialization in Cairo by our Belgian competitor. Our prices are 10% under the Belgian prices before adding the 2-1/2% finance fee, or 13% under on the final price.

When we have to offer regular commercial rates in the United States in competition with this type of financing, we are "out of the business."

Is there anything that the Export-Import Bank can do to help in arranging comparable financing, taking into account that our prices are 10% lower than the competitor's?

Very truly yours,

THE FRENCH OIL MILL MACHINERY COMPANY

W. C. Bair
Vice President - Finance

WCB/dlm/dpf/wmb/dkb/gaw

Attachment

N.V. EXTRACTION DE SMET S.A.

JVH/vdg

Edegem, May 30th,1980.

ENVELOPE A

Messrs. GENERAL ORGANIZATION
FOR INDUSTRIALIZATION,
6, Khalil Agha Street
Garden City
CAIRO
A.R.E.

Dear Sirs,

Re : Your tender dated 29/4/1980 for supply and erection of three solvent extraction plants.
- Our quotation n° 80.05.15 -

According to your adjusted call for tender, we enclose herewith our technical specifications for plant and machinery of the solvent extraction units to be supplied to

- CAIRO OILS & SOAP Co.
- MISR OILS & SOAP Co.
- NILE OILS & SOAP Co.

We have carefully studied your general conditions and we do accept the contents in general.

However some minor points may have to be clarified before drawing up a final agreement and some terms may have to be slightly amended to suit correctly the requirements of our authorities.

The given prices under envelope B are based on cash payment as mentioned under ARTICLE 5 a) of your general conditions.

According to para b) of same article, we can offer conditions as follows.
These conditions are subject to the approval of the Belgian financial authorities :

10% with the order;

10% by irrevocable Letter of Credit in Belgian Francs, payable against shipping documents upon first presentation. This L/C should allow shipment of goods from West European and United States origin.

80% by 10 sixmonthly instalments, plus interest at 7,5% p.a. payable every six months on the unpaid balance. These instalments plus interests will be covered by drafts in Belgian Francs, domiciliated in Belgium. First draft payable 6 months after completion of main shipment.
The drafts will be drawn by us immediately on receipt of the downpayment and sent to you for acceptation.
You will have them guaranteed for payment by a first bank of your country, which will then send them within 30 days to a Belgian Bank. This Belgian Bank will keep them as "Trustee" with instructions to remit them to us duly completed with the different maturity dates, at time of main shipment.
Main shipment is considered to be achieved, when according to our invoices, 80% of the equipment value has been shipped.

A slight increase of the prices (about 2,5%) will result in this case of the financial costs and increased political insurance premium.

Regarding para c) government credit, we confirm that a relatively important credit is available. However at this stage we are not in a position to obtain the approval of the Egyptian authorities, as one of the conditions of the state to state credit is that only the Egyptian government decides what it will be used for.

We are ready to investigate what the procedures will be for you to be granted the advantages of said credit.

Awaiting your comments on our tender with the highest interest, we remain, dear Sirs,

Faithfully yours,

EXTRACTION DE SMET S.A.

D. SMETS,
General Manager.

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Mr. **Ireland**. I want to say at the outset that I share so many of your feelings, I think you would make, in my view, an excellent chairman for this committee.

Mr. Weber, your comments.

Mr. **Weber**. I was interested in the spread that you were talking about. Your foreign export competition is being financed at 9 or 10 percent, is that correct?

Mr. **Werling**. We have had some as low as 7.8 percent, but generally we are running into 10 percent across-the-board financing right now.

And one of the things I would like to elaborate on, that this really should be comparable to what our U.S. Export-Import Bank does, but on the very first exhibit that I have got attached to my documentation, I think it is the Belgium transaction, Exhibit 1, it really highlights the philosophy, I think, of the European governments and that is, they make a comment in here that the duration of the credit, in other words the term of the credit, may be extended with the approval of the French administration to meet the most favorable proven bid on the part of competition. Boy, they are going out and they are going to get it. They are going to meet competition.

Not our export bank. We unilaterally go ahead and raise our rates and tell the rest of the world, hey, raise your rates because you are not being competitive with us now. Our whole philosophy of the Export-Import Bank of the United States is not in line with the rest of the world and that is why we are not getting the business and not getting the jobs.

Mr. **Weber**. Give me those numbers once again.

Mr. **Werling**. Eximbank begins at 12 percent and then there is another point and then there is another 4 or 5 points on top—this is for the category II countries, which are the medium term countries. They are not the very poor countries and they are not the richer countries, but the discount loan program for that category starts out at 12 percent for a small business. Then the commercial bank gets another 1 percent on top of that, which makes it 13 percent. Now, remember, we are competing against 10 percent right now. So, we are up to 13 percent right off the bat and then our regional banks without exception in the financing that we have tried to do want the loan guarantees of another one shot 4½ percent. Well, that comes out to almost another 2 percent financing over a 5-year period. So, that brings us up somewhere in the vicinity of 14 or 15 percent and we are competing against 10 percent.

Mr. **Weber**. Who guarantees the loan?

Mr. **Werling**. The loan can be guaranteed in two ways. It can be guaranteed either through the Eximbank program or FCIA commercial bank guarantee program.

Mr. **Weber**. And there is a 4½-percent premium?

Mr. **Werling**. On the insured portion, yes. And so once all the costs are added up, we are way out of the ballpark.

Mr. **Weber**. How close would you have to narrow that spread in order to be competitive?

Mr. **Werling**. Let's put it this way. I think if our Eximbank met the agreed-upon rate or met the European's base rate of 10 percent, if we would meet that, I think the quality of our products would allow us to compete again in the market. If our stated rate would just meet their competitive rate, we would be able to compete because our products are better. We have had customers who have been willing to pay 10 to 15 percent more for our equipment because it is better equipment, but when you take the subsidized financing of the Europeans in consideration right now, it just totally knocks us out of the picture over 4 or 5 years.

Mr. WEBER. That is interesting. Very alarming.

Mr. WERLING. And another thing I would like to add if I could, please. On top of that they come back from the conference in Versailles saying, hey, we have reached an agreement that the Europeans are going to raise their rates and then they gave them a grandfather clause until December 31, and that grandfather clause says that for all the business that was under consideration prior to the agreement, they can go ahead and subsidize the financing clear through December 31. Well, what that has effectively done to us because we negotiate sometimes for 2 years before a contract comes to a conclusion, so all the business that we have been negotiating on, we won't sign anything between now and December 31, and then it is only the new business after that that we really have, maybe, a possibility of competing on.

So, we are looking at going into 3 years of total nonsupport from our Eximbank because once we sign an order and it is going to take us awhile in 1983 to sign any orders if they are competitive, but from the time we sign an order to the time that we design the equipment, it is 9 months to a year before we ship that. We are looking at a total massive wipeout financially of our company next year.

Mr. IRELAND. I don't have any questions but I would like to make a comment or two to see if you agree. I think you are probably correct that—and the figures show that in the past almost all of Exim's—what did you say, some 60 percent come from seven firms——

Mr. WERLING. 67 percent, yes.

Mr. IRELAND. From seven firms and that there is a built-in bias in the banking fraternity to deal with the larger companies because they have better credit ratings. When I was in the banking business it used to be referred to as bureaucratic lending. The bureaucratic lending has caught up with them and some of those I don't have to pay much attention to this because it is a big company and obviously its credit rating is good buzzards are coming home to roost because they have many holes in them. Just because it is big doesn't mean it is good.

I think it would behoove the Export-Import Bank and perhaps some of our private banks to look a little more carefully at the smaller businesses. They may have better credit than the large companies. Just approving credit because it is a big name is not always the wise thing to do. Some of those executives doing that are without jobs at the present time and I think that will happen more frequently.

Another aspect of that is selling my colleagues on the Export-Import Bank to be the great saviors of the small business world because they lobby hard for export-import financing, as you said, for companies like Boeing. I thought it was a little bit more than $2.2 billion, but——

Mr. **Werling**. $2.7 billion.

Mr. **Ireland**. If, in fact, we get to small business by the Export-Import Bank lending its money to Boeing and then Boeing, in a sense, supporting the small business, I wonder—and the same ostensibly for those other six firms, it would seem to me to make a great and good case for why mess around with the middle man. Let's get rid of the Export-Import Bank if we are going to do it that way. Trot it over to Boeing and the other six and let them do it and save the overhead.

Mr. **Werling**. I think you have a very fine point there and, you know, if we are not going to support small business, then for God's sakes, let's come out and say it. Let's go ahead and say that we are not going to support the Eximbank and we are not going to support the small business and let's make it something that Congress is going to recognize, but what is going to happen? Is it industry by industry, just like our industry? The Europeans are going to subsidize their financing and they will take over that industry and they will squeeze that U.S. industry out of the market. You know, after they squeeze that industry out of the market in the United States, they don't have to subsidize their exports any more because then they have no competition. So, somewhere there has got to be some leverage to assure that the American businessman, based on his own merits and the quality of his own products can compete without having to compete with other governments.

We can't live in a welfare state. If we drive all of our manufacturing out of the United States, we can't all live on welfare.

Mr. **Ireland**. Let me ask you about the one inherent question that comes to the layman and I am sure you have had to answer before. The noncompetitive price within the context of the medium- and small-business price of funds through Exim is, in theory, since Boeing is able to use $2.7 billion of it, a competitive price for Boeing in the world market, because obviously they are using it. Now, why is that a competitive price for them? Is it because of their position in the world market which makes it possible for them to control the pricing of their product or is it simply because that proportion of their cost is a minor part of the cost in relation to their overall, vis-a-vis a small business where it would be a bigger—which one of those or both of them is the reason why that Bill Draper's price is OK for Boeing, but not for the little guy?

Mr. **Werling**. I wish I could answer that for you. We have a difficult enough time as small business trying to document what our competition is doing and I honestly don't have the answer for you on that, but all I can tell you is what is happening to small business and what our kind of competition is doing, that we are not competitive in the small business environment. And when you find out that the people at the Export-Import Bank can't even find enough small businesses that have done business with them last year to do a study on small business, I think that is pretty indicative of how competitive they are for all small business.

Mr. **Ireland**. I have one last question that has occurred to me. AID, in theory, has a part of its program to direct a certain amount of funds to small business. Have you run into that and have you utilized it?

Mr. **Werling**. We have tried to utilize it and the only time our company was ever able to utilize any AID funds was back during the Vietnam conflict on a big project back then. Other than that, we have never been successful and every time I come to Washington, I make sure I stop by either the World Bank or the U.S. Aid Department or the Inter-Development Bank. I try to work with the people to keep on top of what is going on. We get their weekly or monthly literature of what is going on, but we have not been successful in using those programs.

Mr. **Ireland**. Are the problems similar as the ones you related with Exim or——

Mr. **Werling**. No; the problems with most of these other projects are that the projects that have been approved have generally been designed and developed by other U.S. companies who have been in the developing country and they have helped those other countries, those other governments, develop the projects for which they are going to come back and apply for the funds.

We find out what the funds are going to be used for after the project has already been approved and usually it does not involve our type of equipment. It might be road building, construction, that type of thing.

Mr. **Ireland**. Your product is not a Third World product?

Mr. **Werling**. Oh, our product is a big Third World product because it allows them to have—rather than selling the raw agricultural products on the market and having no added value and selling them as a commodity, they can get added value by processing it.

Mr. **Ireland**. Why wouldn't you go that same route that you just described for these others—go to the country, develop the program and then come to the AID thing and pick off those AID World Bank funds that way?

Mr. **Werling**. Because the projects we work with are generally by independent businessmen in those countries and we don't deal generally with the governments of those countries where a lot of those projects are designed. A complete solvent plant for us might be $2½ to $3½ million. They are not big massive projects that generally you find going through U.S. Aid or the World Bank and so on. Again, they are usually with other small independent business people in those countries and the funds all go through the government channels.

Mr. **Ireland**. I got you. There ought to be a source of correction along that line.

Mr. **Werling**. We have tried.

Mr. **Ireland**. All right. My hat is off to you. Don't despair. You know, we will get the cavalry out here in a little while. Thank you very much.

Mr. **Werling**. Thank you.

Mr. **Ireland**. We are adjourned.

[Whereupon, at 11:55 a.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

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